Survey data for December indicated a return to expansion territory for Scotland’s private sector. The upturn was driven by a slight increase in new business, although the rate of growth was only marginal.

Staffing numbers contracted during December for the first time in five months. This was led by the manufacturing sector as service providers continued to add to headcounts. Despite growth in both output and new work, backlogs of work deteriorated further. Meanwhile, average cost burdens continued to climb, yet this did not prevent firms from cutting their output prices for another month.

The seasonally adjusted headline Bank of Scotland PMI - a single-figure measure of the month-on-month change in combined manufacturing and services output - scored 50.3 in December, up from 49.8 recorded in November. The latest figure signalled a fractional improvement in output in Scotland’s private sector. This rise was led by service providers, as manufacturers registered a further decline in production.

New business received by Scottish private sector companies increased during December. That said, the rate of growth was marginal. While the service sector reported a modest expansion in new work, manufacturing companies registered a solid contraction in incoming new orders.

Staffing numbers in Scotland’s private sector declined for the first time since July during December. However, the rate of job shedding was weak. Manufacturers linked falling employee numbers to necessary redundancies.

Scotland’s private sector indicated a further deterioration in outstanding business volumes in December. The latest decline extended the current sequence of backlog depletion to 12 successive months. There was evidence that a fall in work-in-hand reflected efforts to cut delayed projects.

Latest survey data highlighted a further increase in input costs in December, continuing the current sequence of price rises which started in January 1999. The rate of inflation was solid, but dampened by a drop in input prices at Scottish goods producers. Despite higher average cost burdens, output prices fell for the fifth month running. Moreover, the drop in charges was broad-based by sector.

Alasdair Gardner, Bank of Scotland Regional Managing Director Scotland - Commercial Banking, said, “Despite returning to expansion territory, Scottish manufacturers struggled to cope with a lack of new orders from both domestic and foreign markets. This acted as a brake on overall output growth. On a positive note, service providers showed signs of economic optimism, with headcounts and new business levels expanding. However, these improvements were marginal, and insufficient to propel the economy in a higher gear at the end of 2015.”
Component Summary

Output / Business Activity

Scottish service sector companies reported a marginal expansion in business activity during December, extending the current sequence of growth to three months. Anecdotal evidence suggested higher output was associated to improvements in the mortgage market. Meanwhile, Scottish manufacturers reported a contraction in production for the second successive month in December. However, the rate of decline was marginal, as the seasonally adjusted Output Index scored fractionally below the 50.0 no-change mark. While some panellists blamed lower production on a drop in the number of orders received during the month, others linked declines to required repairs on machinery.

New Business

December data signalled a further increase in new business volumes at Scottish service providers. Moreover, growth in incoming new work has been reported in every survey period since March. The rate of expansion was solid and accelerated to a six-month high. In contract, incoming new orders received by manufacturing companies in Scotland fell further in December. Despite the rate of contraction softening since November, it remained robust overall. A drop in the volume of new work has been reported in each of the past four surveys, with businesses linking this to a reduction in demand.

Backlogs

Work-in-hand in Scotland’s service sector was depleted further during December. The seasonally adjusted Business Outstanding Index posted below the 50.0 no-change mark for the sixth consecutive month, signalling a further modest rate of decline. Panellists linked falling backlogs to efforts in reducing the number of delayed projects. Data collected in December also indicated a further solid deterioration in backlogs of work at Scottish manufacturers. However, the rate at which work-in-hand was depleted softened to the weakest in three months despite. Almost 26% of companies registered a decline in outstanding business levels compared to only 11% that recorded an accumulation.

Input prices

Latest survey data indicated a further increase in average cost burdens faced by Scottish service sector firms during December. The rate of inflation was solid and accelerated since November. Panellists linked higher input prices to a combination of wages growth and increased regulation fees. In contrast, Scottish manufacturers continued to pay lower prices for their inputs during December on average. Input prices have dropped in every month since July. However, the rate at which cost burdens decreased was marginal, as the majority of panel members (around 89%) reported no-change in costs during the month.

Output prices

Service providers operating in Scotland lowered their average tariffs for the fifth month running during December. This was highlighted by the seasonally adjusted Input Prices Index posting below the 50.0 neutral threshold. According to anecdotal evidence, the fall in output prices was linked to competitive pressures in the marketplace. With input costs decreasing, manufacturing companies in Scotland lowered their average tariffs further in December. The rate of deflation quickened since November and was solid overall. According to anecdotal evidence, firms dropped output prices to maintain their competitiveness in the market.

Employment

Job creation in Scotland’s service sector edged closer to stagnation in December, as the seasonally adjusted Employment Index posted fractionally above the crucial 50.0 neutral mark. There were reports that an increase in staffing levels reflected a greater number of company acquisitions. With production volumes falling, goods producers in Scotland continued to shed jobs during December. Falling staffing levels have been reported in each of the past three surveys, with the latest drop being the sharpest since January.
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.

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