

# Bank of Scotland PMI®

## BANK OF SCOTLAND

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The Bank of Scotland PMI® (*Purchasing Managers' Index*®) is produced by Markit.

The report features original survey data collected from a panel of around 500 companies based in Scotland and operating in both manufacturing and service sectors. The panel has been carefully selected in order to accurately reflect the true structure of the Scottish economy and therefore provide an accurate picture of business conditions in the region.

The Scotland survey forms part of a series of regional surveys and is derived from the highly regarded national PMI survey produced by IHS Markit.

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**September 12<sup>th</sup> 2016**

## Scotland PMI slips to five-month low in August

### Key findings:

- Output in Scotland's private sector declines further
- Service sector business activity declines but output growth reported by manufacturers
- Job creation accelerates to 17-month high

August survey data signalled a further contraction of Scotland's private sector, the second in as many months. The downturn was driven by contractions in both output and new orders, while outstanding business levels also deteriorated. Nonetheless, firms added to their payrolls at the sharpest pace for 17 months.

### Output and demand

The seasonally adjusted headline Bank of Scotland PMI - a single-figure measure of the month-on-month change in combined manufacturing and services output - slipped further into contraction territory in August. At 49.1, fractionally lower than July's 49.2, the latest figure was the lowest since March and points to a second successive month of falling output. While service providers recorded a modest decline in their business activity, blaming this on the current downturn in the oil and gas sector, manufacturers raised their production at a marginal pace.

New business received by Scotland's private sector contracted for the second consecutive month in August. The decline was broad-based across Scotland's manufacturing and service sector. However, the rate of contraction eased since July and was only marginal.

### Employment and backlogs

Scotland's private sector increased its workforce numbers at the sharpest rate for 17 months in August. That said, the rate of job creation was only moderate. Both goods producers and service sector companies increased their headcounts during the month.

Meanwhile, survey data collected in August pointed to a lack of capacity pressures in Scotland's private sector. This was highlighted by a further deterioration of outstanding business, the twentieth time this has been the case in as many months. Panellists registering a decline in their backlogs of work linked this to weaker demand conditions in the economy.

### Input and output prices

Average cost burdens faced by Scotland's private sector continued to increase in August. Moreover, the rate of inflation quickened to a four-month high. There was some evidence that the rise reflected higher import costs.

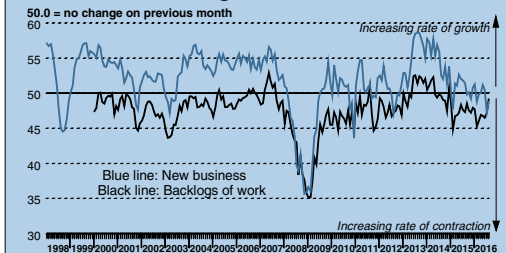
Scotland's private sector companies raised their selling prices for the first time in three months during August. The rate of increase accelerated to a 25-month high, but was only marginal overall.

### Bank of Scotland PMI summary

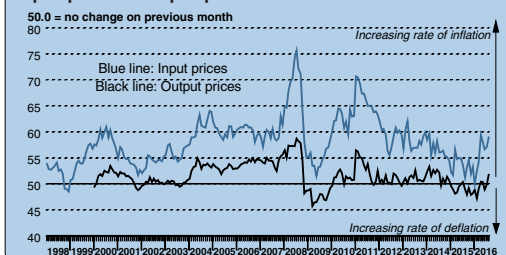
#### Output / employment



#### New business / backlogs of work



#### Input prices / output prices



### Composite index summary

	Output		New Business		Backlogs of Work	
	Scotland	UK	Scotland	UK	Scotland	UK
Mar'16	48.5	53.6	49.8	52.8	46.0	49.7
Apr	50.0	51.9	50.1	53.1	46.9	48.7
May	49.9	53.0	51.2	51.3	46.8	47.8
Jun	50.5	52.5	50.6	53.0	46.5	48.3
Jul	49.2	47.5	47.3	46.1	47.2	46.0
Aug	49.1	53.6	48.8	53.1	49.1	50.4
	Employment		Input Prices		Output Prices	
	Scotland	UK	Scotland	UK	Scotland	UK
Mar'16	49.4	52.7	54.3	54.3	49.1	51.6
Apr	48.2	52.1	59.4	55.3	50.4	50.9
May	49.5	50.9	58.0	55.0	50.4	51.4
Jun	49.7	50.5	56.7	55.5	48.9	51.3
Jul	50.0	49.6	57.2	57.3	49.9	51.3
Aug	51.9	50.8	59.0	59.1	51.8	52.9

## Services: Business Activity and Employment

Q. Compare your level of **business activity** (gross income, chargeable hours etc.) this month with the situation one month ago.

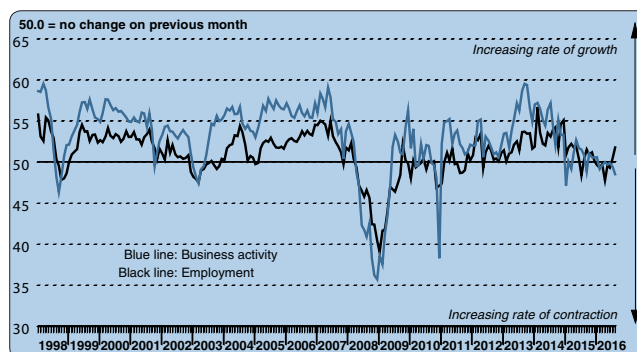
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	26.0	55.4	18.6	+7.4	53.7	49.6
	Apr	26.6	53.6	19.8	+6.9	53.4	50.0
	May	25.2	52.9	21.9	+3.3	51.7	49.7
	Jun	22.5	60.8	16.7	+5.7	52.9	49.9
	Jul	22.5	52.9	24.6	-2.1	49.0	49.4
	Aug	23.2	49.8	27.0	-3.7	48.1	48.6

August survey data signalled a further fall in business activity in Scotland's service sector, extending the current sequence of decline to four successive months. Moreover, the rate of decline quickened to the fastest for 19 months, but remained relatively marginal. According to anecdotal evidence, the drop in output reflected the continued downturn in the oil and gas sector.

Despite the lower level of activity in the sector, Scottish service providers added to their employee numbers for the second month in succession in August. Furthermore, the rate of job creation quickened to a 15-month high. While employee numbers increased at a marked pace at financial services and travel, tourism & leisure firms, headcounts were reduced at business services providers.

Q. Compare the **no. of people employed** this month with the situation one month ago (treat two part-time as one full-time & ignore temps).

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	11.7	77.4	10.9	+0.8	50.4	49.8
	Apr	9.3	77.6	13.0	-3.7	48.2	47.8
	May	13.3	75.8	10.8	+2.5	51.3	49.6
	Jun	13.1	76.6	10.4	+2.7	51.4	49.3
	Jul	11.0	81.0	8.0	+3.0	51.5	50.5
	Aug	13.2	77.4	9.4	+3.8	51.9	51.8



## Services: New Business and Business Outstanding

Q. Compare the amount of **new business** at your company (whether already fulfilled or not) this month with the situation one month ago.

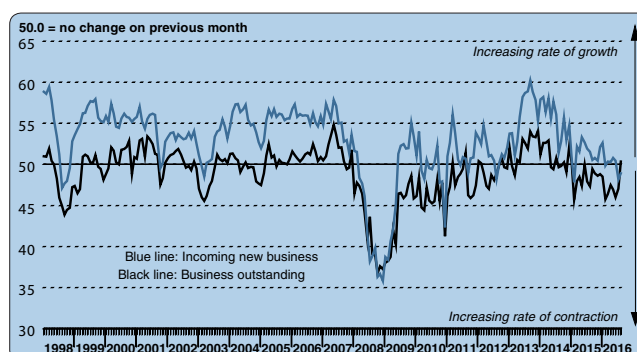
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	26.6	55.0	18.3	+8.3	54.1	50.3
	Apr	25.7	54.0	20.3	+5.5	52.7	50.3
	May	25.9	54.7	19.4	+6.5	53.2	50.8
	Jun	23.3	56.7	20.0	+3.3	51.6	50.5
	Jul	20.0	52.6	27.4	-7.4	46.3	48.2
	Aug	22.7	50.7	26.7	-4.0	48.0	49.0

Scotland's service sector companies reported a further fall in their new business intakes during August. The decline in new orders was the second in as many months, but was only marginal. Sub-sector data highlighted a strong divergence between sectors; business services firms registered solid declines in new work, in comparison to financial services providers which recorded a substantial increase.

Latest survey data pointed to an accumulation of backlogs of work at Scotland's service providers. This was highlighted by the seasonally adjusted Business Outstanding Index posting slightly above the 50.0 neutral threshold. Moreover, the rise in August ended a 13-month period of declining volumes of incomplete work.

Q. Compare the amount of **business outstanding** (i.e. work in hand but not yet completed) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	11.9	72.3	15.8	-4.0	48.0	46.4
	Apr	11.7	73.8	14.6	-2.9	48.5	47.5
	May	11.5	72.1	16.3	-4.8	47.6	47.0
	Jun	8.3	77.1	14.6	-6.3	46.9	46.0
	Jul	10.8	70.9	18.2	-7.4	46.3	47.0
	Aug	15.1	68.8	16.1	-1.0	49.5	50.4



## Services: Average Costs/Input Prices and Average Prices Charged

Q. Compare the **average prices paid** by your company for all purchases, wages/salaries etc. this month with the situation one month ago.

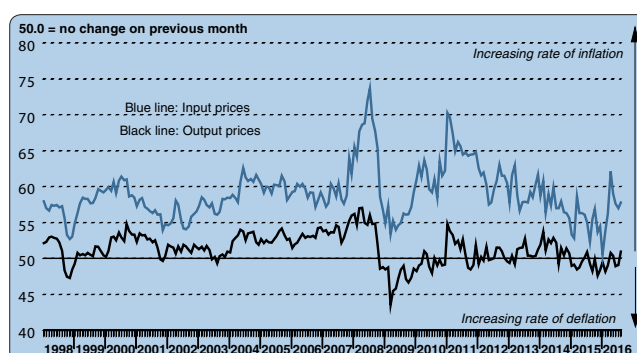
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	16.3	80.4	3.3	+12.9	56.5	56.2
	Apr	30.2	67.3	2.4	+27.8	63.9	62.1
	May	22.9	74.6	2.5	+20.4	60.2	59.1
	Jun	17.5	80.3	2.2	+15.2	57.6	57.6
	Jul	17.8	80.1	2.1	+15.7	57.8	57.0
	Aug	17.3	81.4	1.3	+16.0	58.0	57.8

Cost pressures continued to intensify in Scotland's service sector during August. Moreover, the rate of inflation quickened to the sharpest in three months, as around 17% of firms recorded higher input costs compared to only 1% that noted a lower price. There was some evidence that the rise in average cost burdens reflected a combination of higher fuel prices and a depreciation of sterling.

After adjusting for seasonal factors, the Output Prices Index posted above the 50.0 neutral threshold for the first time in three months during August. The rate at which average charges rose accelerated to a 21-month high. Anecdotal evidence suggested that the rise in selling prices was linked to higher overheads at Scottish service providers.

Q. Compare the **average prices charged** by your company (e.g. prices per service or unit of time) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	8.7	83.0	8.3	+0.4	50.2	49.0
	Apr	11.8	81.6	6.5	+5.3	52.7	50.8
	May	8.8	84.9	6.3	+2.5	51.3	50.4
	Jun	5.4	87.8	6.8	-1.4	49.3	48.9
	Jul	6.4	87.2	6.4	+0.0	50.0	49.1
	Aug	7.2	89.0	3.8	+3.4	51.7	51.0



## Manufacturing: Output and Employment

Q. Compare your level of **output/production** this month with the situation one month ago.

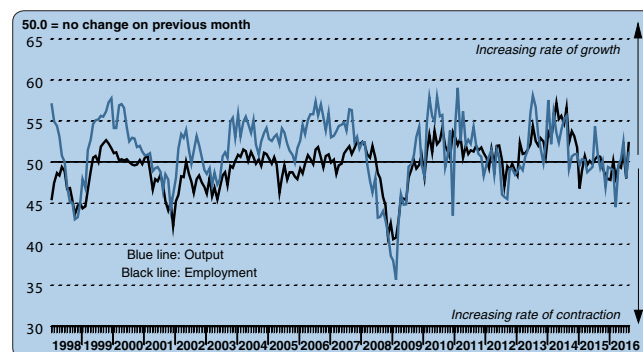
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	20.3	57.7	22.0	-1.6	49.2	44.6
	Apr	24.0	55.8	20.2	+3.9	51.9	49.7
	May	23.6	55.9	20.5	+3.1	51.6	50.4
	Jun	27.3	59.4	13.3	+14.1	57.0	52.5
	Jul	18.9	58.3	22.8	-3.9	48.0	48.1
	Aug	24.4	46.5	29.1	-4.7	47.6	51.1

Scottish manufacturing production returned to growth territory in August. Although the latest rise was only marginal, it followed a modest contraction reported in July. Where an expansion in production was reported, firms generally associated this with stronger demand from abroad for Scottish goods.

August survey data pointed to a rise in workforce numbers in Scotland's goods-producing sector. The rate of job creation accelerated to a 21-month high, but remained relatively moderate. Nearly 14% of companies recorded a rise in their headcounts in comparison to only 7% that registered a decline.

Q. Compare the **no. of people employed** this month with the situation one month ago (treat two part-time as one full-time & ignore temps).

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	9.7	79.0	11.3	-1.6	49.2	48.1
	Apr	10.0	79.2	10.8	-0.8	49.6	49.5
	May	10.9	78.3	10.9	+0.0	50.0	49.3
	Jun	14.0	77.5	8.5	+5.4	52.7	51.3
	Jul	9.3	80.6	10.1	-0.8	49.6	48.1
	Aug	13.5	79.4	7.1	+6.3	53.2	52.3



## Manufacturing: New Orders and New Export Orders

Q. Compare the level of **new orders** received (UK and export) this month with the situation one month ago.

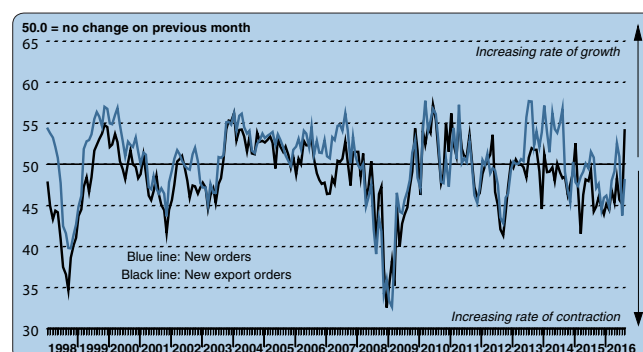
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	28.2	50.0	21.8	+6.5	53.2	48.0
	Apr	20.8	60.0	19.2	+1.5	50.8	49.2
	May	31.0	51.9	17.1	+14.0	57.0	52.6
	Jun	26.4	52.7	20.9	+5.4	52.7	50.9
	Jul	17.1	52.7	30.2	-13.2	43.4	43.8
	Aug	20.9	46.5	32.6	-11.6	44.2	48.1

New order levels held in Scotland's manufacturing sector declined for the second successive month in August. This was highlighted by the seasonally adjusted New Orders Index posting below the 50.0 no-change mark. However, the rate of contraction eased since July and was only modest overall.

Meanwhile, new business from abroad rebounded into growth territory in August following a solid contraction in the previous month. Moreover, the rate at which new work from foreign clients expanded was the sharpest for 64 months. There was some evidence that the rise in new export orders reflected the weakening of the pound.

Q. Compare the level of **new export orders** received this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	15.2	70.9	13.9	+1.3	50.6	46.8
	Apr	14.5	66.3	19.3	-4.8	47.6	45.4
	May	17.5	62.5	20.0	-2.5	48.8	48.3
	Jun	17.6	58.8	23.5	-5.9	47.1	45.7
	Jul	11.9	63.1	25.0	-13.1	43.5	45.2
	Aug	18.4	63.2	18.4	+0.0	50.0	54.2



## Manufacturing: Backlogs of Work and Stocks of Finished Goods

Q. Compare the level of **outstanding business** in your company this month with the situation one month ago.

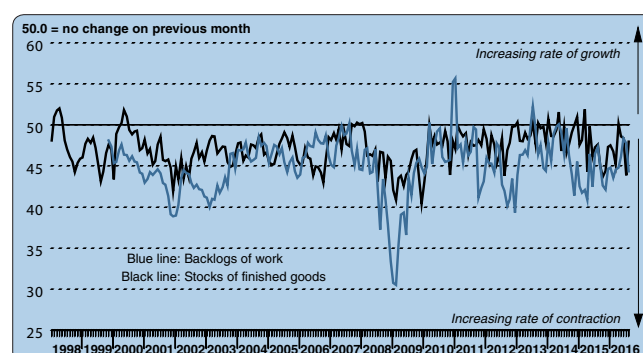
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	14.4	66.7	18.9	-4.5	47.7	44.6
	Apr	12.9	65.5	21.6	-8.6	45.7	44.8
	May	16.4	61.2	22.4	-6.0	47.0	46.2
	Jun	13.9	69.6	16.5	-2.6	48.7	48.4
	Jul	14.5	65.0	20.5	-6.0	47.0	47.8
	Aug	17.9	52.1	29.9	-12.0	44.0	44.4

Scottish manufacturers reported ongoing capacity pressures in August, as highlighted by the seasonally adjusted Backlogs of Work Index posting below the 50.0 no-change mark. Moreover, the rate of decline was marked and accelerated to the sharpest in six months. Falling outstanding business has now characterised the past 27 surveys.

Companies continued to remain cautious about their inventory levels in August, as post-production inventories declined for the fourth month in succession. Moreover, the rate of decrease was moderate. According to anecdotal evidence, the fall in incomplete business reflected stock reduction efforts.

Q. Compare your **stocks of finished goods** in units this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	10.5	69.5	20.0	-9.5	45.2	45.2
	Apr	16.5	68.8	14.7	+1.8	50.9	50.2
	May	11.9	73.4	14.7	-2.8	48.6	48.6
	Jun	16.2	66.7	17.1	-0.9	49.5	48.5
	Jul	10.9	67.3	21.8	-10.9	44.5	43.9
	Aug	14.7	67.9	17.4	-2.8	48.6	48.0



## Manufacturing: Quantity of Purchases and Suppliers' Delivery Times

Q. Compare the **quantity of items purchased** (in units) this month with the situation one month ago.

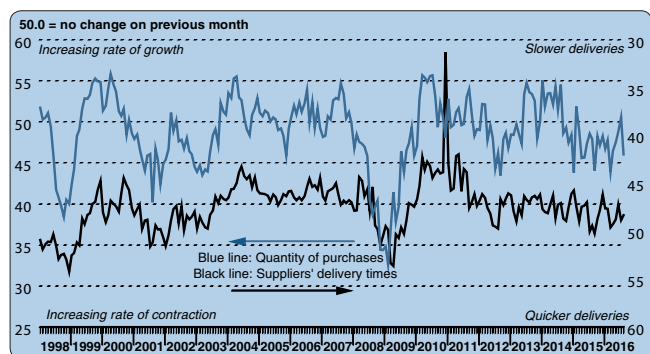
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	21.0	53.2	25.8	-4.8	47.6	43.9
	Apr	18.8	59.4	21.9	-3.1	48.4	46.5
	May	19.5	58.6	21.9	-2.3	48.8	47.5
	Jun	18.8	64.8	16.4	+2.3	51.2	48.8
	Jul	18.0	62.5	19.5	-1.6	49.2	50.5
	Aug	17.2	52.3	30.5	-13.3	43.4	46.0

August survey data pointed to a reduction in input buying in Scotland's manufacturing sector. The decline was the seventeenth reported in 18 months. Moreover, goods producers lowered their purchasing activity at the sharpest rate since March. Anecdotal evidence suggested that the fall in buying activity reflected lower future order expectations.

Vendor performance in Scotland's goods-producing sector fell for the eleventh month in succession during August. Moreover, the rate at which average lead times lengthened quickened since July but was only marginal.

Q. Compare your **suppliers' delivery times** (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net %	Index	S.Adj Index
2016	Mar	3.3	94.3	2.5	+0.8	50.4	49.6
	Apr	3.1	92.2	4.7	-1.6	49.2	49.2
	May	1.6	93.0	5.4	-3.9	48.1	48.7
	Jun	0.8	91.4	7.8	-7.0	46.5	47.2
	Jul	2.3	91.4	6.3	-3.9	48.0	48.8
	Aug	1.6	90.5	7.9	-6.3	46.8	48.3



## Manufacturing: Input Prices and Output Prices

Q. Compare the **average price of your purchases** (volume weighted) this month with the situation one month ago.

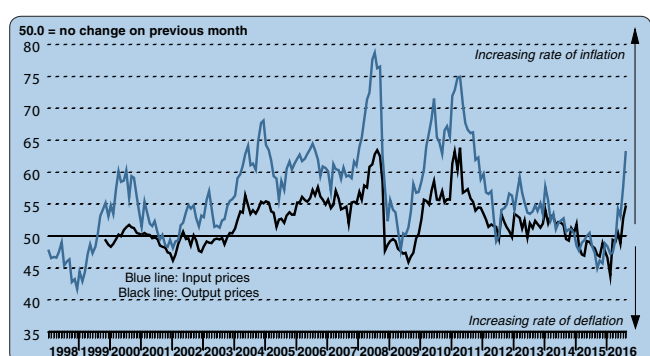
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	6.5	82.9	10.6	-4.1	48.0	47.4
	Apr	10.0	83.1	6.9	+3.1	51.5	49.5
	May	12.6	84.3	3.1	+9.4	54.7	54.3
	Jun	11.7	82.8	5.5	+6.3	53.1	53.1
	Jul	19.7	76.4	3.9	+15.7	57.9	57.9
	Aug	28.1	69.5	2.3	+25.8	62.9	63.2

Average cost burdens faced by Scotland's manufacturing companies rose further in August, as highlighted by the seasonally adjusted Input Prices Index posting substantially above the 50.0 neutral threshold. Moreover, the rate of inflation accelerated to a 59-month high. Several firms commented that higher import costs had led to the overall increase in average cost burdens.

Scotland's manufacturing sector raised their output charges for the second consecutive month during August. Furthermore, the rate at which output prices rose was the sharpest since September 2011. Companies which increased their selling prices associated this with higher input costs, most notably for raw materials.

Q. Compare the **average price charged** for your goods (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Mar	9.8	81.3	8.9	+0.8	50.4	49.4
	Apr	6.9	85.5	7.6	-0.8	49.6	49.2
	May	7.8	85.9	6.3	+1.6	50.8	50.5
	Jun	4.6	90.0	5.4	-0.8	49.6	48.8
	Jul	6.9	90.8	2.3	+4.6	52.3	52.9
	Aug	14.0	81.4	4.7	+9.3	54.7	54.7



## Bank of Scotland PMI: Notes and Methodology

### PMI surveys

*Purchasing Managers' Index*<sup>®</sup> (*PMI*<sup>®</sup>) surveys are monthly surveys of carefully selected companies which provide an advance indication of what is really happening in the private sector economy by tracking variables such as output, new orders, employment and prices across both manufacturing and service sectors. The *PMI* surveys are based on fact, not opinion, and are the first indicators of economic conditions each month. The data are collected using identical methods in all countries and regions so that accurate comparisons may be made.

Questionnaires are completed in the latter half of each month and are collected and processed by economists at Markit. Respondents are asked to state whether business conditions for a number of variables have improved, deteriorated or stayed the same compared with the previous month.

### Index numbers

Index numbers are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary between 0 and 100 with readings of exactly 50.0 signalling no change on the previous

month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration.

Reasons given by survey respondents for any changes are analysed to provide insight into the causes of movements in the indices and are also used to adjust for expected seasonal variations. The indexes are seasonally adjusted to take into consideration expected variations for the time of year, such as summer holiday shutdowns and national holidays such as Christmas.

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.

*Purchasing Managers' Index*<sup>®</sup> (*PMI*<sup>®</sup>) surveys are now available for over 30 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/product/pmi](http://www.markit.com/product/pmi).

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