

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: DOWNTURN IN SCOTLAND'S PRIVATE SECTOR INTENSIFIES

- **Headline PMI falls further below 50.0 neutral threshold in March**
- **Volume of new business contracts, albeit fractionally**
- **Backlogs of work decline for fifteenth consecutive month**

March survey data pointed to a sharper deterioration in business conditions in Scotland's private sector. Output declined and staffing levels continued to decrease, while the volume of incoming new business fell for the second successive month, driven by the sustained downturn in the oil and gas industry. Faced with fewer new projects, firms worked further through their backlogs of work.

Meanwhile, companies lowered their output charges, citing a lack of demand in the economy, yet faced a further rise in input costs.

The seasonally adjusted headline Bank of Scotland PMI - a single-figure measure of the month-on-month change in combined manufacturing and services output - posted 48.5 in March, falling from February's 49.2. The drop was led by a sharp contraction in the manufacturing sector, while the decline in business activity at service providers was more muted in comparison.

The volume of new business received by Scotland's private sector edged closer to stabilisation during March. A fractional increase in new work in Scotland's service sector was weighed down by a contraction of new orders at manufacturers. Companies partly associated the decline with a lack of activity in the oil and gas industry.

Staffing levels in Scotland's private sector continued to reduce in March, continuing a trend which has been observed in every survey since December last year. However, the rate of job shedding remained slight.

Latest survey data highlighted a further deterioration in backlogs of work in March, the fifteenth time this has been the case in as many months. Both service providers and goods producers reported solid declines in outstanding business volumes, with panellists linking this to a lack activity in their respective sector.

Finally, input prices increased further in the private sector of Scotland during March, with the latest rise accelerating to the quickest since October last year. Meanwhile, companies lowered their average tariffs for the eighth consecutive month. The lower charges were broad-based across services providers and manufacturers. According to anecdotal evidence, the drop in output prices reflected an increase in competitive pressures in the economy.

Alasdair Gardner, Bank of Scotland Regional Managing Director Scotland - Commercial Banking, said, "Scotland's private sector experienced harsher business conditions during March, as the current downturn intensified. Moreover, the struggles endured in the economy's oil and gas industry continued to take its toll on output and new order levels, which both contracted. As a result, job shedding is evident for the fourth successive month as firms looked to cut back on production costs."

Component Summary

Output / Business Activity

Business activity in the **service sector of Scotland** fell for the second successive month during March. However, the rate of contraction was marginal and softened since February. According to anecdotal evidence, the lower level of output partly reflected a slowdown in the oil and gas industry. **Scottish manufacturing** production contracted at the fastest pace since December 2010 during March. This was highlighted by the seasonally adjusted Output Index posting substantially below the all-important 50.0 no-change mark. Panellists blamed the drop in production on a lack of new orders received throughout the month.

New Business

March survey data pointed to a higher level of incoming new business in the **service sector of Scotland**. However, the rate of growth was marginal and weak in comparison to the long-run series average. Similarly, new orders received by companies operating in **Scotland's manufacturing** sector fell for the seventh successive month during March. However, the rate of decline was marginal and eased to the weakest during this trend. While some panellists attributed the drop in new orders to the downturn in the oil industry, others commented on a general deterioration of demand conditions in the sector.

Backlogs

Work-in-hand at **Scottish service providers** continued to deteriorate in March. The rate at which outstanding business declined was solid and the latest drop extended the current sequence to nine successive months. A lower level of business activity was attributed by companies that registered a decline in their backlogs. **Manufacturers in Scotland** continued to work through their outstanding business levels during March. Moreover, a deterioration in backlogs of work has been registered in every survey since June 2014. Approximately 19% of business recorded a lower volume of work-in-hand, while around 14% reported an increase.

Input prices

Scotland's service sector reported a rise in their average cost burdens during March. Moreover, the rate of inflation accelerated to a five-month high and was marked overall. Around 16% of panel members faced an increased price for their inputs, compared to only 3% that saw a drop. Survey data collected in March signalled a further decline in average cost burdens faced by **Scottish goods producers**. Almost 11% of companies reported a lower price for inputs compared to only 7% that recorded an increase. Moreover, input costs have fallen in every month since July 2015.

Output prices

Scottish service sector firms lowered their output charges during the month, continuing a trend which has been observed in every survey since August last year. There was some evidence that lower average tariffs were associated to increased competitive pressures in the sector. **Scotland's manufacturers** continued to lower their output charges during the latest survey period, lengthening the current sequence of price discounting to 14 consecutive months. However, the rate of deflation was the weakest during this trend, as highlighted by the seasonally adjusted Output Prices Index posting fractionally below the 50.0 no-change mark. Anecdotal evidence linked lower average tariffs to efforts to win new orders.

Employment

Workforce numbers in **Scotland's service sector** continued to slide in March, extending the current trend of decline to three successive months. However, the rate of job shedding was slight, as highlighted by the seasonally adjusted Employment Index posting fractionally below the all-important 50.0 no-change mark. Similarly, Employee numbers fell again in **Scotland's goods producing sector**, the fifth time this has been the case during the past six months. However, the rate of job shedding was marginal, as around 11% of firms reported a drop in headcounts in comparison to nearly 10% that recorded an increase. Anecdotal evidence linked the fall in staffing levels to efforts to cut backs on production costs.

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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