Press Release

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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: Output Growth Accelerates to Fastest for a Year

- Robust increase in services activity strengthens current expansion
- Employment rises at fastest rate since July 2007
- Cost inflation stabilises

The Bank of Scotland PMI report for March showed a solid and accelerated increase in output across Scotland’s private sector economy. Stronger growth was in part the result of a faster increase in incoming new business, and led to the steepest monthly rise in employment since July 2007. Cost inflation was meanwhile broadly unchanged since the previous survey period, and still slightly stronger than at the UK level.

March saw the Bank of Scotland PMI – a seasonally adjusted index monitoring activity across Scotland’s manufacturing and service industries – climb steeply from 51.7 in February to 54.1, indicating a robust increase in output that was the sharpest for 12 months. Growth accelerated on a faster rise in service sector activity, with goods production increasing at a modest pace that was up only slightly since the previous survey period. This was the fifteenth straight monthly increase in total private sector output.

New business inflows also increased at a faster rate during March, partly as a result of greater marketing activity. In line with the trend in output, service providers saw the stronger rise in incoming new work over the month.

With workloads increasing and a number of companies expecting activity levels to rise further in the near-term, job creation accelerated to the strongest since July 2007. Employment growth in Scotland was also faster than across the UK as a whole, with performance bettered only in the Midlands.

Latest data meanwhile pointed to a faster decrease in outstanding business in March – the quickest for three months – as backlogs of work at service providers were reduced for the first time since last December.

Purchasing costs increased solidly on average in March, but nonetheless at a rate that was little-changed from February’s 17-month low. Respondents predominantly linked this latest rise in input prices to higher fuel costs, although there were also reports of chemicals, food and steel increasing in price.

Scottish companies kept output prices broadly unchanged during March, contrasting with a rise in charges across the UK as a whole. Data showed that a slight reduction in tariffs across the service sector was sufficient to offset a slower increase in factory gate prices.

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Donald MacRae, Chief Economist at Bank of Scotland, said: "March’s PMI rose at the fastest rate for a year suggesting the private sector of the Scottish economy is beginning to reverse the slowdown experienced at the end of last year. The rise in new business orders and employment in both manufacturing and services is particularly welcome. Although growth in manufacturing output was modest, new export orders rose during the month perhaps reflecting reducing concerns over the sovereign debt crisis in the Eurozone. Prospects for avoiding a “double dip” and a return to moderate growth in 2012 have improved."

Component Summary

Business Activity:
March data signalled a robust month-on-month increase in Scottish private sector output. The rate of expansion was the steepest since last April, albeit slightly weaker than the average recorded across the UK as a whole. The stronger expansion in private sector output north of the border mainly reflected a faster increase in activity at service providers – the sharpest for 11 months. Goods production meanwhile increased at a modest rate, and one that was slightly faster than in February. Total private sector activity in Scotland has now increased continuously over the past 15 months.

New Business:
After slowing in February, growth of incoming new business at Scottish companies accelerated to the fastest since April of last year. Moreover, this fourth straight monthly rise in new work placed at private sector firms north of the border was slightly stronger than the increase seen at the UK level. Scotland’s goods producers and service providers both saw increases in new work, with latter continuing to lead the overall expansion. Anecdotal evidence showed that greater marketing efforts helped boost new business inflows during the month.

Backlogs:
Backlogs of work at firms operating in Scotland’s private sector economy decreased for the seventh month in succession during March. This latest reduction in work-in-hand was the fastest since last December, albeit slightly weaker than the long-run series average. Backlogs of work at Scottish manufacturers decreased at a faster rate than across the service sector, where outstanding business fell for the first time in three months. The UK as a whole meanwhile saw work-in-hand decline only modestly over the month, and at the slowest pace since May 2011.

Input prices:
Cost inflation stabilised in March, with input prices increasing at a rate that was little-changed from February’s 17-month low. Cost pressures across Scotland nevertheless remained strong in relation to both the historical series trend and the average recorded throughout the UK as a whole. Higher input prices primarily reflected increasing fuel costs, according to anecdotal evidence, although there were also reports that some chemicals, food and steel had risen in price over the month. By sector, services again saw the faster increase in average costs.

Output prices:
Despite input costs increasing solidly on average during March, prices charged by Scottish private sector businesses remained broadly unchanged. Sub-sector data showed that a modest rise in factory gate prices north of the border – the weakest for 27 months – was offset by a slight reduction in tariffs set across the service sector, which panellists attributed to both a strong degree of competition and efforts to encourage sales. Output prices meanwhile increased at the UK level for the first time in three months, with charge inflation at a seven-month high.

Employment:
March saw a solid and accelerated increase in employment at Scottish businesses. Furthermore, staffing numbers increased at the fastest rate since July 2007. Anecdotal evidence suggested that, while the rise in recruitment activity mainly reflected greater workloads, a number of firms also added staff in anticipation of further growth in coming months. Employment in Scotland’s service sector increased at a slightly slower rate than February’s 55-month record, although the return of job creation at manufacturers was sufficient to offset this.
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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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