

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 IN SCOTLAND PICKS UP DURING JUNE

- Activity up solidly after slowdown in May, though growth of new work remains weak
- Job creation returns, with employment increasing in manufacturing and services
- Cost pressures weakest in 33 months

The latest Bank of Scotland *PMI* report showed that output in the Scottish private sector expanded at a faster rate in June, with job creation returning after employment levels stagnated in May. However, new work intakes rose only marginally over the month and backlogs were once again reduced, raising some concerns over the prospects of the improved rate of growth in output being maintained in the coming months.

At 52.5 in June, up from May's 17-month low of 50.8, the Bank of Scotland PMI – a seasonally adjusted index monitoring activity across Scotland's manufacturing and service industries – showed that Scotland's private sector economy expanded at a solid and accelerated pace at the end of the second quarter. Moreover, the rate of growth was stronger than that recorded at the UK level. Both goods production and services activity north of the border increased over the month, the latter at the sharper rate.

New business levels also increased in June but, unlike the trend recorded for output, growth remained only marginal. While service providers saw a further (albeit modest) rise in business wins, this was partly offset by a third successive monthly decrease in new work placed with goods producers.

Employment levels across Scotland rose in June after stagnating during the previous survey period, marking the seventh increase in the past eight months. Jobs were created across both manufacturing and services, with the former recording the slightly steeper increase in payroll numbers. Only the two English Midlands regions outperformed Scotland on the jobs front in June.

Backlogs of work were meanwhile reduced at a slower pace – the weakest since February. The modest decrease in outstanding business extended the ongoing period of depletion to ten months.

With manufacturers north of the border noting a decrease in their average purchasing costs in June, input price inflation overall eased to the slowest in 33 months. That said, cost pressures were stronger than in all other monitored regions of the UK. Firms continued to cite increases in the costs of utilities and labour.

Output prices crept up marginally on average in June, predominantly reflecting a rise factory gate prices and contrasting with slight charge deflation across the UK economy as a whole.

Donald MacRae, Chief Economist at Bank of Scotland, said: "The June PMI showed a welcome pick-up in the Scottish economy with both manufacturing and services recording growth. Employment rose across all sectors while cost pressures continued to ease. However, the marginal rise in new orders overall and the fall in new export orders illustrate the challenge of maintaining growth in the face of a widespread slowdown in the UK and the Eurozone economies."

Component Summary

Business Activity:

Total output across Scotland's manufacturing and service sectors combined increased at a faster rate in June. The increase in activity was of equal magnitude to the average recorded over the series history, and extended the current period of expansion to a year-and-a-half. Growth in Scotland was also stronger than across the UK private sector as a whole, which recorded the softest increase in activity for seven months. North of the border, a solid and accelerated rise in services output compared with only marginal growth in the manufacturing sector.

New Business:

Latest data pointed to another marginal increase in new business received by firms in Scotland's private sector economy in June, with the rate of growth little-changed since the preceding survey period. That said, the increase in new work was comparatively stronger than that recorded at the UK level, where new order levels virtually stagnated. As has been the case in each of the previous two months, a marginal decrease in new work placed with manufacturers north of the border was more than offset by growth in the service sector.

Backlogs:

Backlogs of work at Scottish private sector companies decreased again during June, stretching the ongoing sequence of depletion to ten months. That said, the latest reduction in business outstanding was weaker than those recorded in each of the previous three survey periods. Underpinning the weaker trend was a softer reduction in work-in-hand at service providers – the slowest since March. Indeed, goods producers noted a slightly accelerated drop in backlogs of work. Data for the UK showed outstanding orders fall faster than in Scotland.

Input prices:

June saw cost pressures across Scotland's private sector economy ease further. In fact, the overall rate of input price inflation was the slowest since September 2009, and notably weaker than the average recorded throughout the series history. The slowdown was underpinned by a decrease in purchases prices facing manufacturers, the first in the sector since May 2009. Service providers meanwhile saw a slightly steeper increase in average costs than during the previous month. At the UK level, inflation slowed to a marginal rate.

Output prices:

Prices charged in Scotland increased only marginally during June, and at a much slower rate than input costs. The increase, albeit only slight, was the eighth in consecutive months and contrasted with further deflation across the UK on average. Rising factory gate prices were again the primary source of output price inflation in Scotland, with charges in the service sector broadly unchanged over the month. Service providers noted that an increasing degree of competition had generally prevented higher input costs being passed on to clients.

Employment:

Scottish private sector employment increased in June for the seventh time in the past eight months, following a lull in job creation during May. The increase in payroll numbers was broad-based by sector for the first time since March, with manufacturers registering a comparatively sharper rise in employment levels than their services counterparts. The rate of net staff hiring across the UK as a whole meanwhile slowed for the second month in succession, and was weaker than that recorded north of the border.

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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.

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For further information, contact:

Zoe Redhead, Bank of Scotland Press Office
Tel: 0131 655 5405 / 07809 551491
Email: zoeredhead@bankofscotland.co.uk
Web: www.lloydsbankinggroup.com/media.asp

For technical enquiries, contact:

Phil Smith,
Markit
Economist
Tel: 01491 461 009
Email: phil.smith@markit.com

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