

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: UPTURN IN PRIVATE SECTOR ECONOMY CONTINUES INTO OCTOBER

- **Business activity rises markedly, boosted by growth in new work**
- **Solid rate of job creation maintained**
- **Input price inflation outpaces growth in output prices**

Scotland's private sector economy continued its recent strong performance into the final quarter of the year, with output and new business growth remaining sharp in October according to **Bank of Scotland's** latest *PMI* report. Job creation north of the border was solid and broad based by sector. Input price inflation meanwhile dipped slightly on the month, but nevertheless remained much stronger than the rate of growth in output prices.

Private sector **output** in Scotland rose markedly in October, as highlighted by the Bank of Scotland PMI – a composite indicator designed to gauge month-on-month changes in combined manufacturing and services output – posting at 57.8. Although slightly lower than August and September's survey-high readings of 58.3, this latest posting was still among the highest recorded since the series began in January 1998. October's expansion was primarily centred on the service sector, with growth of goods production easing to only a modest pace.

October also saw a steep rise in the level of **new work** at private sector firms, stretching the current sequence of growth to 11 months. Matching the trend in output, however, the latest increase was less marked than one month previously and slower than the UK-wide average. Data meanwhile signalled a modest rise in **new export orders** at manufacturers north of the border.

Increased levels of business activity and new work encouraged further job creation in October, extending the current sequence of rising **employment** to 11 months. The rate of increase was solid and unchanged from that recorded in each of the previous two months.

There remained pressure on capacity despite additional staff being added during the month, as highlighted by a further increase in the level of **work-in-hand** at Scottish businesses. This stretched the current spell of backlog accumulation to five months.

The rate of **input price inflation** faced by businesses in Scotland slowed slightly in October, but nevertheless remained just above the UK-wide average. Food and utilities were among the inputs that services firms reported as up in price since September, while manufacturers indicated that a number of material costs had risen in line with higher demand. Average **output prices** meanwhile increased only marginally, weighed down by competitive pressures.

**Donald MacRae, Chief Economist at Bank of Scotland, said:** "October's PMI was the fourth highest since the survey began in 1998 suggesting the private sector of the Scottish economy entered the final quarter of the year enjoying robust growth. A steep rise in new work was accompanied by a modest but welcome increase in new export orders. Both the services and manufacturing sectors created more jobs. The Scottish economy is maintaining growth momentum making the recovery more sustainable with each passing month."

## Component Summary

### Output / Business Activity

Business activity in Scotland's **service sector** economy continued to grow strongly in October. The pace of expansion was only fractionally slower than in September, when it reached the joint-fastest in the survey history. **Manufacturing** output growth continued to lose momentum at the start of the fourth quarter, however, easing to only a modest pace that was the weakest in five months. Nevertheless, October marked the seventh consecutive monthly increase in the level of goods production, following nine months of contraction.

### New Business

October's survey indicated a further sharp rise in the level of new work received by **service providers** north of the border. The rate of growth matched that seen in August, having dipped slightly from September's survey-record high. The pace of growth of **manufacturing** new orders reaccelerated in October, having eased during the previous survey period to the weakest in four months. Although still down on the heights seen in July and August, growth was robust and well in excess of the long-run series average.

### Backlogs

October's rise in new business at **services firms** contributed to a seventh straight monthly increase in the level of their work-in-progress. Easing only marginally since September, the rate of accumulation was the second-fastest in over six years. Despite **manufacturers** receiving greater intakes of new work, their business outstanding continued to fall during October. The rate of decline was slightly slower than in the previous survey period, but nevertheless still solid.

### Input prices

**Services firms** faced an increase in their average operating costs in October. Although easing slightly since September and below the long-run series average, the rate of input price inflation was nevertheless marked. Food, fuel and utilities were identified by panel members as the key areas of inflationary pressure. Matching the trend recorded at services firms, input price inflation in the **manufacturing sector** dipped slightly from the previous survey period. It was also only mild overall in the context of the series' historical trend.

### Output prices

October data indicated another marginal rise in average prices charged by **services firms**, thereby extending the current sequence of increase to seven months. Anecdotal evidence suggested that, while a number of firms were able to raise output prices in line with increased costs, pricing power generally remained weak due to strong competition in the sector. A rise in **manufacturers'** cost burdens meanwhile led to higher factory gate prices. The rate of inflation was only moderate, however, and also slightly slower than one month previously.

### Employment

Higher business activity impacted positively on the jobs market in October, with **services firms** again raising staffing levels. The degree to which tertiary employment increased was slightly less marked than in August and September, but nevertheless solid in the context of historical survey data. A slower rise in **manufacturing** output failed to impede the rate of job creation in the sector, which in October accelerated to the fastest since July. Moreover, it was the second-fastest in the past 31 months.

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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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