PRESS RELEASE

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: STRONG OUTPUT GROWTH MAINTAINED INTO JULY

- **Output growth dips slightly since June, but nonetheless remains sharp**
- **Fresh survey-record rise in new business**
- **Steepest rise in output prices in two years**

A further strong expansion in Scottish private sector business activity was indicated by latest *PMI* data from **Bank of Scotland**, with output levels driven up by a fresh survey-record rise in new business intakes. Job creation continued into the third quarter but, as with output, at a slightly reduced pace. An added sign of strength in the economy was a solid rise in average output prices, the sharpest in two years, with firms meanwhile facing the same rate of cost inflation as in June.

The Bank of Scotland PMI registered 56.7 in July, down slightly from June's 73-month high of 57.0 but nevertheless indicative of another sharp expansion in private sector **business activity** north of the border. Growth reflected substantial increases in output at both services firms and manufacturers, the latter of which posted the fastest increase in goods production since February 2011. Despite growth in Scotland being sharp, it was nevertheless below the UK average.

Contributing to July's increase in business activity in Scotland was a further rise in the level of **incoming new work**. A second survey record in a row, the latest increase in new business was sharp and extended the current sequence of growth to eight months. Boosting demand was an improvement in market confidence, according to reports from service providers and manufacturers alike.

Scottish firms maintained a preference for higher **employment** in July, raising staffing numbers for the eighth straight month. The rate of growth was solid, albeit slightly weaker than in June due to a slowdown in the pace of job creation in the service sector.

Data suggested that additional jobs are also likely to be created in coming months to counter accumulating **backlogs of work**. July saw the most marked rise in outstanding business in more than six years.

Stronger demand, alongside higher input costs, encouraged firms in Scotland to raise **their output prices**. Furthermore, the rate of inflation in selling prices picked up from the marginal pace in the previous month to the fastest in two years.

Input price inflation north of the border meanwhile stabilised at a solid rate, and one that was above the UK-wide average. Underpinning the latest rise in cost burdens were higher food and fuel costs, as well as increased utility bills.

Donald MacRae, Chief Economist at Bank of Scotland, said: "July's strong PMI reading signalled the Scottish economic recovery continues. Both manufacturing output and services activity increased in the month, with services firms experiencing the fastest rise in new work in over 15 years. July saw a return to growth in new export orders for the first time in five months. Business confidence is clearly on the increase with employment rising for the eighth month in a row. The recovery will become even more embedded if firms build on this ten-month run of positive PMIs by increasing investment."

Component Summary

Output / Business Activity

Business activity at **services firms** increased again in July, extending the current sequence of growth to 31 months. The rise in activity was sharp, albeit slightly less marked than in the previous survey period. Boosting activity levels in the service sector was a rise in incoming new business, according to panel member reports.

Growth of output at **manufacturers** accelerated again in July, to the second-fastest since data collection began at the start of 1998. Only in February 2011 did production increase at a faster rate. A key driver of the expansion in production was a marked increase in the level of new orders in the sector since June.

New Business

July saw a sharp and slightly accelerated increase in new work at **services firms** – the fastest since March 1998. Reasons provided by the survey panel for the latest increase in new business included improved client confidence and a spell of unusually hot weather. Intakes of new work have now increased for 11 successive months, the longest period of uninterrupted growth since the global financial crisis.

Manufacturers recorded a seventh straight monthly increase in new orders in July. The degree to which new work intakes rose was marked, and close to the fastest recorded since data collection began over 15-and-a-half years ago. Improved marketing, increased market confidence and a stronger performance in the construction sector were all factors reportedly helping boost demand at manufacturers.

Backlogs

Higher intakes of new work at **service providers** contributed to an increase in their outstanding business, which has now risen for four months running. Although slower than in the preceding survey period, the rate of accumulation of work-in-hand was still solid overall and the second-fastest in more than six years.

The amount of outstanding business at **manufacturers** rose for the first time in two-and-a-half years in July, highlighting growing pressure on resources in the sector. Moreover, the rate of increase was solid.

Input prices

July data indicated a rise in cost burdens facing **services firms**, which was linked by survey respondents to increased food and fuel prices as well as higher utility bills. The overall rate of inflation was strong, and unchanged from that recorded in the previous survey period.

Purchase prices facing **manufacturers** north of the border rose on average in July, but the rate of inflation was the slowest in a year having eased for the fourth month in succession. Foodstuffs were among the inputs reported as up in price by respondents, with particular mention of dairy products.

Output prices

Increased cost burdens prompted **service providers** to raise their output prices in July. This marked the fourth consecutive month during which average selling prices have increased. Moreover, the rate of inflation accelerated for the third month running and was the strongest since March 2011.

Scottish **factory gate prices** increased on average for the sixth time in the past seven months in July, following a fractional decline during the previous survey period. The overall rate of inflation was only mild, however, and slower than that recorded for input prices.

Employment

Continuing the trend observed in each month since June 2012, employment at **service providers** rose during July. However, the rate of job creation slowed from June’s 14-month high, to only a moderate pace by the historical standards of the series.

In accordance with higher production requirements and increased intakes of new orders, **manufacturers** raised their staffing numbers during July. Furthermore, the overall rate of job creation quickened for the fourth month in a row, to a robust pace that was the fastest in the series history.

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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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