

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.

NOT FOR BROADCAST OR PUBLICATION BEFORE 00:01, MONDAY 13 MAY 2013

BANK OF SCOTLAND PMI: STRONGER GROWTH OF BUSINESS ACTIVITY AND NEW WORK AT START OF Q2

- **Fastest increase in business activity for 12 months**
- **Pace of job creation also quickens**
- **Cost pressures remain strong, despite easing since March**

The second quarter started brightly for private sector firms north of the border, with latest *PMI* data from **Bank of Scotland** showing faster increases in both business activity and new work. Companies responded by creating more jobs, with employment rising at the fastest pace in nine months. Input price inflation meanwhile moderated somewhat from March's recent peak, though cost pressures remained sufficiently high to lead to a further increase in output prices.

The headline Bank of Scotland PMI climbed to a 12-month high of 53.1 in April, from March's reading of 51.1, signalling a solid increase in private sector **business activity** north of the border. The expansion was broad-based by sector, with a return to growth in factory output accompanying a further rise in activity at services firms. Moreover, Scotland outperformed the UK as whole.

Supporting growth of private sector activity in Scotland was a fifth straight monthly increase in the volume of **new work** placed with businesses. The latest rise was faster than that observed one month earlier, although slower than the increase seen UK-wide. There was meanwhile no change in the level of new export orders placed with manufacturers, as was the case in March.

The pace of **job creation** quickened for the third time in the past four months, reaching the fastest since last July. Staffing levels rose at both manufacturers and service providers over the month, with similar rates of increase in each sector.

Outstanding business in Scotland's private sector economy was reduced only marginally during the latest survey period and at the slowest rate in the ongoing three-month sequence of decreasing backlogs.

April saw a dip in the rate of **cost inflation** facing businesses in Scotland from March's recent peak. Nevertheless, the month-on-month increase in cost burdens was still strong, with only Northern Ireland seeing a steeper rise among the 12 UK regions monitored by PMI data. Firms in Scotland highlighted paying more for energy, food and, as a consequence unfavourable currency movements, a number of imported items.

Output prices meanwhile increased for the fourth month in a row. Although only modest, the latest rise was nevertheless the most marked since last September.

Donald MacRae, Chief Economist at Bank of Scotland, said: "April's PMI climbed to a twelve month high signalling growth in the private sector of the Scottish economy at the start of the second quarter of the year. Both business activity and employment grew in the manufacturing and services sectors while the volume of new business rose for the fifth month in a row. However, demand growth was largely UK based with the level of new export orders showing a flat trend for the last five months. These results suggest the Scottish economy is now beginning a more robust recovery."

Component Summary

Output / Business Activity

April data signalled a solid and accelerated increase in business activity at **service providers** in Scotland, and one that was the sharpest for a year. A number of firms linked higher business activity to having more new work than one month previously, while there was also mention from panellists of extra sales staff driving growth.

April saw a return to growth in **manufacturing** output, thereby ending a nine-month sequence of contraction. The expansion in factory production was only slight, however. Of the firms that recorded a higher level of output than one month earlier, a number linked this to increased intakes of new orders in recent months.

New Business

Service providers registered a further increase in their intakes of new business in April, extending the current sequence of growth to eight months. The rise was solid, and faster than that recorded in the preceding survey period.

Manufacturers operating north of the border recorded a further rise in incoming new orders in April. The increase was the fastest over the current four-month sequence of growth, although only modest in the context of historical survey data.

Backlogs

Corresponding with greater pressure on operating capacity from an increase in new business intakes, backlogs of work at **services firms** accrued during April. The increase in outstanding business, albeit only slight, was the first in three months.

Excess capacity at **manufacturers** remained in spite of increased inflows of new business, as evidence by a further decrease in the volume of work-in-hand (but not yet completed) in the sector during April. The reduction in backlogs of work was the twenty-seventh in consecutive months, but the rate of depletion moderated and was the slowest since last June.

Input prices

Input costs facing **services firms** increased at a slower pace in April. That said, the overall rate of inflation was still strong, with just under one-quarter of the survey panel posting higher average costs, compared with only 3% noting a decline.

Input price inflation in the **manufacturing** sector slowed in April, after having accelerated to the fastest in 14 months in the previous survey period. The increase in average purchasing costs was nevertheless still the second-sharpest in the past year.

Output prices

Services firms passed on part of the burden of higher costs to clients through raised charges in April. The increase in output prices was the second in the past three months and the fastest since last September, albeit still only modest overall.

Amid increasing costs in the **manufacturing** sector, factory gate prices were raised for the four month running in April. However, competitive pressures were reported to have weighed on businesses' pricing power over the month, with the latest increase in average charges the weakest in the current sequence.

Employment

Employment at **service providers** increased during April, as has been the case in each of the past 11 months. Despite being the fastest since January, the rate of job creation was still only modest overall.

Continuing the trend observed over the past three months, employment at **manufacturers** increased during April. Little-changed since the previous survey period, the rate of job creation remained only mild.

Notes to editors

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.

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.

About Bank of Scotland

Bank of Scotland is part of Lloyds Banking Group, the UK's largest retail bank and Scotland's largest financial services employer. Established in 1695, Bank of Scotland is the UK's oldest surviving clearing bank. Our goal is to be the best financial services provider in Scotland. We believe this means we must build a leadership position not on the basis of scale but on the foundations of reputation and recommendation.

About Markit

Markit is a leading global financial information services company with over 2,800 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information, see www.markit.com.

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

The intellectual property rights to the Bank of Scotland *PMI* provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index[®] and PMI[®] are registered trade marks of Markit Economics Limited. Markit and the Markit logo are registered trade marks of Markit Group Limited.