BANK OF SCOTLAND PMI: GROWTH IN BUSINESS ACTIVITY REBOUNDS TO FASTEST IN THREE MONTHS

- Strong growth in output and new business recorded
- Employment levels rise at faster pace
- Sharpest increase in output prices for six months

The first Bank of Scotland PMI report for 2014 showed the upturn in the private sector economy regain momentum after growth eased in the latter months of 2013. An accelerated rise in new business in January boosted both output and job creation, with the former rising at one of the strongest rates on record.

Input price inflation meanwhile dipped from December’s nine-month high, but nevertheless remained strong and led businesses to raise output prices at a faster rate.

January saw the most marked increase in combined manufacturing and service sector output for three months, with the rate of growth only just below the survey highs reached last summer. The headline Bank of Scotland PMI posted 57.2, up solidly from 54.5 in the final month of 2013. The pace of expansion signalled by the index was still slightly slower than that observed across the UK as a whole, however.

Behind January’s sharp and accelerated expansion in output was a faster increase in new business – also the steepest since last October. Manufacturers and service providers alike recorded strong expansions in new work, with the former also signalling a return to modest growth in new export orders after two months of decline.

Employment at Scottish private sector businesses rose for the fourteenth month in a row during January, the longest sequence of net job creation in nearly six years. In line with stronger growth in both output and new business at the start of the year, the degree to which employment rose was more marked than in December.

The level of work-in-hand (both in progress and not as yet started) meanwhile increased again, but only marginally and at the slowest rate in the current eight-month sequence of accumulation.

Input price inflation north of the border eased to a three-month low in January, reflecting a moderation in the rate of increase in services firms’ operating costs. Cost inflation was nevertheless stronger than the UK average, with staff and raw materials reported by panellists to be the key sources of inflationary pressure.

Increased demand meanwhile provided businesses with greater pricing power in January, leading to the fastest rise in average output charges since last July.

Donald MacRae, Chief Economist at Bank of Scotland, said: “January’s PMI rose to 57.2 - its highest level for three months and back to the highs of last summer. Output grew strongly in both manufacturing and service sectors accompanied by rising employment and increasing levels of new business. The growth in new export orders after two months of decline is particularly welcome. Business confidence continues to increase ensuring the Scottish economy not only continues the recovery but enters 2014 with growth momentum.”
Component Summary

Output / Business Activity

The rate of growth of Scottish service sector business activity accelerated in January, reaching the fastest in three months. Boosting the level of business activity was increased confidence among clients and an associated rise in incoming new work, according to panel member reports. January’s expansion was the thirty-seventh in successive months. January also saw a return to strong growth in manufacturing output after a loss momentum in the final quarter of 2013. Production levels have now increased in nine of the past ten months.

New Business

Services firms recorded a faster increase in new business intakes in January. Furthermore, the degree to which new work increased was sharp in the context of historical survey data. Intakes of new work at manufacturers meanwhile increased again, stretching the current sequence of expansion to 13 months. Having accelerated for the second month in a row, the rate of growth in new orders was sharp and the fastest since last August’s near-survey record. Anecdotal evidence pointed to a general increase in demand, from both domestic and overseas markets.

Backlogs

Backlogs of work at service providers increased again, though the rate of accumulation eased since December to only a modest pace. The current sequence of growth in outstanding business now extends to ten months. In contrast, the level of outstanding business in Scotland’s manufacturing sector decreased for the sixth straight month during January. The rate of backlog depletion was the weakest since August, however, and notably slower than the long-run series average. Anecdotal evidence suggested an expansion in operating capacity helped companies keep atop of incoming new orders.

Input prices

The rate of input price inflation in Scotland’s service sector eased in January, after having hit a nine-month high at the end of 2013. That said, it remained strong overall. Panel member reports suggested that the principal sources of inflationary pressure were food and staff costs. In contrast with the trend recorded in the service sector, manufacturers faced an increase in input price inflation. Operating costs rose to the greatest extent for ten months, up largely as a result of higher raw material prices.

Output prices

Higher cost burdens led services firms to raise their output prices in January. Although still only modest relative to the trend in input prices, the rate of increase in charges was the second-fastest in the past two-and-a-half years (behind July 2013). Increased cost pressures in the manufacturing sector also translated into a faster rise in factory gate prices. Output price inflation reached a 25-month high and was above the long-run series average, though still somewhat slower than that observed for input prices. Prices charged by goods producers have now risen for seven months in succession.

Employment

Scotland’s service sector workforce expanded for a twentieth straight month in January. Little-changed from the preceding survey period, the rate of increase was modest. Where a rise in staffing levels was recorded, this was often attributed to increased workloads. There was also some mention among panellists of employment being raised in anticipation of further growth in activity in coming months. With growth in goods production having gathered pace in January, manufacturers in turn stepped up their rate of job creation. Indeed, the rate at which employment levels increased was the fastest since last July, and among the sharpest in the entire series history.
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.

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