PRESS RELEASE BANK OF SCOTLAND

**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 09 JUNE 2014**

# **BANK OF SCOTLAND PMI:** PMI SIGNALS EASING OF PRIVATE SECTOR GROWTH

- **PMI falls back, but still well above 50.0**
- **New business growth drives further job creation**
- **Backlogs decrease for first time in 12 months, albeit marginally**

May's **Bank of Scotland** *PMI* report indicated further solid expansion of private sector output and new business north of the border, although the data pointed to a loss of growth momentum since April. Businesses expanded their capacity to meet increased demand by creating more jobs, with greater resources helping lead to a fall in backlogs for the first time in a year. Inflationary pressures meanwhile softened slightly, as input and output prices both rose at slower rates.

At 54.0 in May, seasonally adjusted headline Bank of Scotland PMI – a single-figure measure of the month-on-month change in combined manufacturing and services business activity – showed a solid increase in private sector **output**. However, down from April's 54.8 and the lowest reading since April 2013, the headline index showed a further loss of growth momentum from the rapid pace of expansion seen at the start of the year. Both manufacturers and services firms recorded slower increases in output than in April.

The number of **new business wins** in the Scottish private sector economy continued to rise during May. The boost to orders came primarily from stronger domestic demand, according to May's survey, with the level of **new export business** at manufacturers falling solidly and to the greatest extent for five months.

Growth in private sector output and new business continued to have a positive impact on the labour market, with May data pointing to net job creation for the eighteenth straight month. The rate of increase in **employment** was solid, albeit the slowest in four months and well below the UK-wide average.

Consistent with the upturn in activity north of the border having moderated somewhat, May saw the amount of **outstanding business** at firms decrease for the first time in a year. That said, the reduction in backlogs was only fractional, and to some extent also a reflection of increased staffing capacity.

May's survey meanwhile highlighted a reduction in cost pressures facing businesses as **input price inflation** eased to the second-lowest in nearly two years, and was only slightly faster than March's four-and-a-half year low. Service providers faced the sharper increase in cost burdens, citing the impact of rising staff remuneration.

The rate of **output price inflation** in Scotland was also slightly slower than in the prior month, but faster than the UK average nonetheless.

**Donald MacRae, Chief Economist at Bank of Scotland, said:** "May's PMI report signalled further solid expansion in output and new business in the month. Both manufacturing and service sectors recorded growth and rising employment while inflationary pressures eased with both input and output prices rising at slower rates. The challenge of exporting is shown by the fourth consecutive monthly fall this year in new export orders. The recovery in the Scottish economy continues but the pace has eased slightly."

## Component Summary

### Output / Business Activity

Growth of **service sector** business activity eased for the third month running in May, reaching the slowest since April 2013. That said, the rate of increase remained solid overall. Meanwhile the level of **manufacturing** output in Scotland rose for the thirteenth time in the past 14 months, although the rate of growth eased since the previous survey period to the slowest since February.

### New Business

Private sector **service providers** operating north of the border noted a further increase in incoming new work in May, extending the current sequence of growth to 21 months. Although the slowest in 2014 so far, the rate of increase during the latest survey period was still solid overall and faster than the long-run series average. The level of new orders placed with **manufacturers** meanwhile increased for the seventeenth consecutive month. The rate of growth was solid and faster than the average over the ongoing sequence of expansion, albeit slower than in April.

### Backlogs

A slower increase in new business allowed **services firms** to catch up on work outstanding, the level of which decreased for the first time in 14 months. That said, degree to which backlogs decreased was only marginal overall. The amount of outstanding business at **manufacturers** was broadly stable during May, after having decreased in each of the past nine months. Firms that reported greater amounts of work-in-hand generally attributed this to solid growth in new orders. That said, others commented on attempts to improve productivity and having reduced backlogs of work as a means of supporting production levels.

### Input prices

May data signalled an increase in operating costs faced by **services firms**, which anecdotal evidence principally linked to higher staffing costs. Indeed, there was frequent mention of a lack of available candidates driving up average pay. A number of respondents also commented on higher food prices. However, the overall rate of input price inflation was slightly slower than in the preceding survey period. Average purchase prices faced by **manufacturers** increased only slightly in May, with the rate of cost inflation having eased from the solid pace recorded in the preceding survey period to the slowest since July 2012. Lower commodities prices was one factor that helped to subdue overall inflationary pressures, according to panel member reports.

### Output prices

Strengthening demand continued to allow **services firms** to pass on at least part of the burden of higher costs to clients, with average charges rising for the fourteenth month in succession in May. As was the case with input prices, however, service sector output prices rose at a slightly slower rate than in April. Factory gate prices also increased at a slower rate in May – the weakest since November 2013. The degree to which **manufacturing** output prices increased was only modest, but nevertheless slightly more marked than the concurrent increase in average input prices in the sector.

### Employment

May saw a slower increase in the level of employment in Scotland's **service sector**, the weakest in four months. Those companies that created additional jobs commented on increased workloads as well as future growth prospects. **Manufacturers** recorded another marked increase in their employment levels in May. The rate of job creation was slower than April's series record, but nevertheless sharp in the context historical survey data. Indeed, around twice as many good producers recorded a rise in payroll numbers as recorded a decrease.

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 diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 11 countries. For more information, please 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