

NOT FOR BROADCAST OR PUBLICATION BEFORE 01:01 (UK), MONDAY 12 FEBRUARY 2018

BANK OF SCOTLAND PMI[®]: PRIVATE SECTOR OUTPUT INCREASES AT MARGINAL RATE IN JANUARY

- New orders and employment rise modestly
- Input price pressures intensify
- Business confidence strengthens to 43-month high

Activity in the Scottish private sector returned to expansionary territory in January, following a contraction at the end of 2017. Broad-based expansions were observed in both employment and new orders. Meanwhile, private sector business optimism strengthened markedly to a 43-month high.

The seasonally adjusted headline Bank of Scotland PMI[®] - a single-figure measure of the month-on-month change in combined manufacturing and services output - registered at 50.3 in January, from 49.4 in December. Although the pace of output growth signalled was only marginal, it represented an improvement from the mild decline observed in December.

Scottish private sector firms reduced activity fractionally. That said, the pace of contraction weakened and was marginal. Meanwhile, order book volumes expanded across the Scottish private sector in January. New business inflows rose markedly in the manufacturing sector, supported by new customer wins and renewed export growth. In the service sector, panellists reported that successful tendering had contributed to higher order intakes.

Greater staff levels enabled Scottish private sector firms to clear outstanding business. Backlogs of work were reduced in January, albeit to the softest extent since September last year.

Firms took advantage of stronger demand and raised output prices in January. In fact, selling charges were increased to the sharpest extent in five months. That said, input cost inflation outstripped that of output prices to a marked degree, thereby signalling a squeeze to private sector profit margins. Cost pressures intensified in January to a nine-month high.

Lastly, fresh expansions in new business and output coincided with greater private sector business confidence during January. Moreover, the degree of optimism strengthened to a 43-month high.

Fraser Sime, Regional Director, Bank of Scotland Commercial Banking said:

“Scotland started 2018 with renewed private sector business activity growth, according to the latest Bank of Scotland PMI data. The upturn was led by manufacturers, while service providers signalled a fractional decline in output.

“Both new business inflows and employment increased in the Scottish private sector, fuelling stronger business confidence. The degree of optimism in the future rose to a 43-month high in January.

“With improved demand conditions, firms raised prices for an eighteenth straight month. That said, input cost inflation remained far greater than that of selling prices, indicating tighter profit margins.”



ENDS

The Bank of Scotland PMI[®] (*Purchasing Managers' Index*[®]) is produced by IHS Markit. The report features original survey data collected from a panel of around 500 companies based in Scotland and operating in both manufacturing and service sectors. The panel has been carefully selected in order to accurately reflect the true structure of the Scottish economy and therefore provide an accurate picture of business conditions in the region. The Scotland survey forms part of a series of regional surveys and is derived from the highly regarded national PMI survey produced by IHS Markit.

Bank of Scotland PMI: Notes and Methodology

PMI surveys

Purchasing Managers' Index[®] (PMI[®]) surveys are monthly surveys of carefully selected companies which provide an advance indication of what is really happening in the private sector economy by tracking variables such as output, new orders, employment and prices across both manufacturing and service sectors. The PMI surveys are based on fact, not opinion, and are the first indicators of economic conditions each month. The data are collected using identical methods in all countries and regions so that accurate comparisons may be made. Questionnaires are completed in the latter half of each month and are collected and processed by economists at IHS Markit. Respondents are asked to state whether business conditions for a number of variables have improved, deteriorated or stayed the same compared with the previous month.

Index numbers

Index numbers are calculated from the percentages of respondents reporting an improvement, no change or decline. These indices vary between 0 and 100 with readings of exactly 50.0 signalling no change on the previous month. Readings above 50.0 signal an increase or improvement; readings below 50.0 signal a decline or deterioration. Reasons given by survey respondents for any changes are analysed to provide insight into the causes of movements in the indices and are also used to adjust for expected seasonal variations. The indexes are seasonally adjusted to take into consideration expected variations for the time of year, such as summer holiday shutdowns and national holidays such as Christmas. IHS 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. *Purchasing Managers' Index*[®] (PMI[®]) surveys are now available for over 30 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

About IHS Markit

IHS Markit (NASDAQ: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 85 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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.

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