

NOT FOR BROADCAST OR PUBLICATION BEFORE 00:01, MONDAY 13 FEBRUARY 2017

BANK OF SCOTLAND PMI[®]: OUTPUT GROWTH ACCELERATES AT START OF 2017

- Scottish private sector strengthens in January
- New business levels increase at sharpest pace for 20 months
- Fastest rise in selling prices since February 2011

The fastest expansion of new business received by Scotland's private sector companies at the start of 2017 was reflected in a quicker pace of output growth, according to the latest Bank of Scotland Regional Purchasing Managers' Index (PMI[®]).

The weakness of the pound placed continued strain on Scottish private sector firms, as cost pressures intensified further. Subsequently, businesses raised their selling prices at the fastest rate since February 2011.

The seasonally adjusted headline Bank of Scotland PMI[®] rose to a four-month high of 51.2 in January, up from 50.7 at the end of 2016. The index shows the month-on-month change in combined manufacturing and services output.

The rise in business activity was centred on Scottish manufacturers, with firms raising production at the quickest pace for 34 months. At the same time, service sector businesses maintained the same level of output as in December.

New business growth hit a 20-month high in January, with firms commenting on improved marketing campaigns and an increase in demand from EU clients. However, job cuts were evident amid further reports of deteriorating backlogs of work.

Nick Laird, Regional Managing Director, Bank of Scotland Commercial Banking said:

"The start of 2017 proved promising for Scottish private sector companies, as new order growth accelerated to a 20-month high encouraging firms to raise business activity faster. Pleasingly, the expansion in new work came in the face of the fastest increase in selling prices since February 2011, with this trend looking likely to be maintained over the coming months. A key driver to this trend is undoubtedly the ongoing upward pressure on input costs, with the weakness of the pound continuing to drive these ever higher as seen in the latest results.

"Underneath the positive headlines however, we note that the increase in demand was more positive for Scotland's manufacturers than their service sector counterparts. Whilst the former raised production at the fastest pace for 34 months in January 2017, the latter saw their service output unchanged since the end of 2016. As such, whilst the latest figures give cause for optimism, the overall improvement in business conditions for the Scottish private sector remained modest."

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Press Release



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SCOTLAND**

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 www.markit.com/product/pmi.

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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