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BANK OF SCOTLAND PMI[®]: BUSINESS ACTIVITY RETURNS TO GROWTH AT END OF 2016

- Increases in output, new orders and employment reported
- Input cost inflation at 67-month high
- Firms raise selling prices at sharpest pace since April 2011

Business activity in Scotland returned to growth in the final month of 2016, supported by a slight increase in new order wins along with a rebound in job creation, according to the latest Bank of Scotland Regional Purchasing Managers' Index (PMI).

However, cost pressures continued to rise, leading to a faster increase in the prices charged for goods and services.

At 50.7 in December, the seasonally adjusted headline Bank of Scotland PMI rose from November's 49.4 to its highest level for three months. The index shows the month-on-month change in combined manufacturing and services output.

Although output returned to growth territory, the pace of increase remained below the long-run series average. The expansion was broad-based across Scotland's manufacturing and service sector, with panel members linking this to stronger underlying demand.

Scotland's private sector registered a slight increase in new business during the final month of 2016, ending a two month sequence of decline. December survey data also pointed to a return to growth in Scotland's workforce numbers as the rate of job creation hit a four-month high.

Cost pressures intensified further in Scotland's private sector at the end of 2016. The rate of inflation quickened to a 67-month high and continued to outstrip the historical average.

Service providers linked the increase to higher prices for fuel, timber and food, while goods producers reflected on the depreciation of the pound. Subsequently, average selling prices set by Scotland's businesses rose at their fastest level since April 2011.

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

"With output, new orders and employment all returning to growth, and backlogs slowing, Scotland's economy bounced back at the end of 2016. The improvement in business conditions across both the manufacturing and service sectors puts Scotland on a firmer footing as we start the New Year. Headwinds remain however, principally through the continued increase in input costs, which rose at their sharpest pace for 67 months. Given the strain this will place on operating margins, firms throughout Scotland will undoubtedly be looking for this to ease during the year ahead."

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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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