

Bank of Scotland PMI[®]

BANK OF SCOTLAND

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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.

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January 15th 2018

Private sector activity slips into contraction in December

Key findings:

- Marginal decline in new orders
- Job creation slows further
- Selling prices rise faster amid greater cost pressures

The Scottish private sector ended 2017 with the first decline in business activity since November 2016. This mainly reflected a drop in new business, with both manufacturing and service sector firms seeing marginal declines in new work. Meanwhile, more staff were hired, enabling firms to clear outstanding business. Despite a reduction in sales, private sector firms raised output prices at an accelerated rate amid a sharper pace of input cost inflation.

The seasonally adjusted headline Bank of Scotland PMI[®] - a single-figure measure of the month-on-month change in combined manufacturing and services output - declined in December to 49.4, from 50.2 in November. This marked the first reduction in Scottish private sector business activity for 13 months, albeit at a marginal rate.

Service sector output contracted at the joint-sharpest pace since January 2015, on a par with November 2016. Firms attributed lower business activity to intensified competition. On the other hand, manufacturers raised production moderately, despite the pace of expansion softening on the previous month to a one-year low.

As was the case with business activity, new orders placed with Scottish private sector firms decreased during December for the first time in 13 months. Sector data indicated that the decline was broad-based. That said, the rate of contraction was slight overall. Panellists suggested that fewer

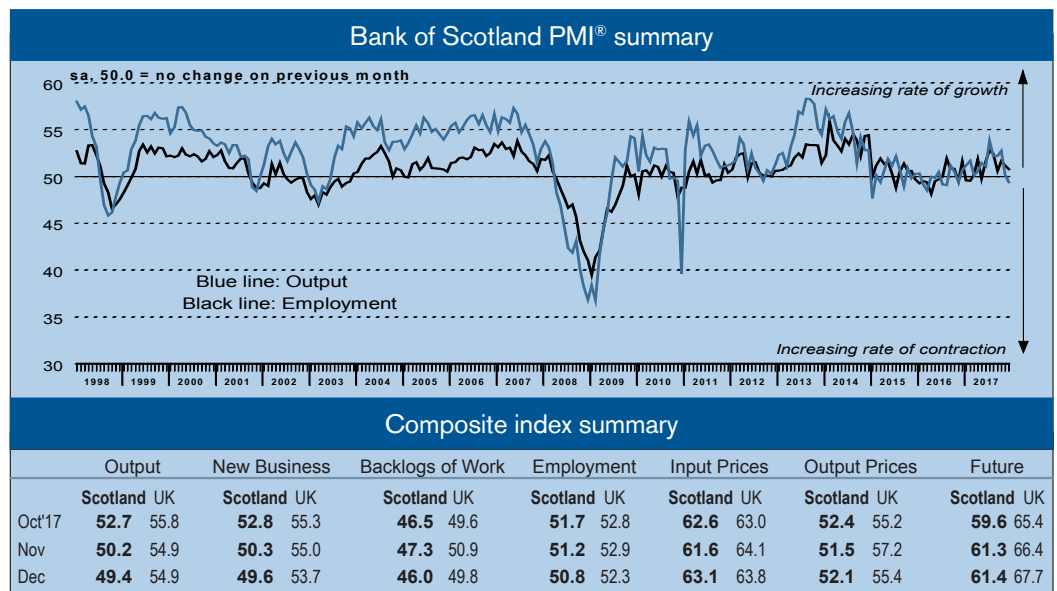
sales were due to a lack of confidence among their customers.

Nonetheless, shrinking order book volumes did not discourage businesses from hiring additional staff. Scottish private sector employment expanded for the seventh consecutive month during December. Manufacturers boosted payroll numbers solidly in preparation of greater production requirements. Meanwhile, service providers increased the workforce only fractionally and at a slower pace. Overall, the rate of private sector job creation was mild and eased to a three-month low.

Consequently, fewer new business wins and larger workforces enabled private sector firms to alleviate capacity pressures. Backlogs of work were reduced to the greatest extent since October 2016.

On the price front, cost burdens faced by private sector businesses in Scotland intensified further in December. Input cost inflation accelerated and was steep overall. A combination of higher wages, fuel costs and charges by suppliers was attributed to greater input prices. In turn, firms raised selling charges at a faster rate in order to pass on higher expenses to their customers.

Lastly, business confidence strengthened to a three-month high during December. New product launches, planned company expansions and increased advertising were all cited as reasons to be optimistic.



Manufacturing: Output and Future Output

Q. Compare your level of output/production this month with the situation one month ago.

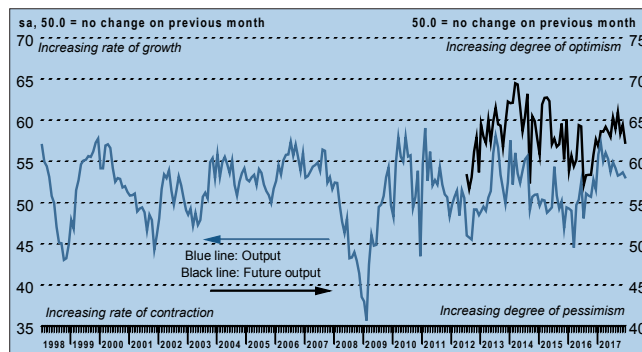
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	25.0	57.6	17.4	+7.6	53.8	54.9
	Aug	21.2	57.6	21.2	+0.0	50.0	54.2
	Sep	27.6	53.5	18.9	+8.7	54.3	53.3
	Oct	26.4	53.5	20.2	+6.2	53.1	53.4
	Nov	21.5	60.8	17.7	+3.8	51.9	53.7
	Dec	24.0	53.6	22.4	+1.6	50.8	53.1

December survey data indicated that production in the Scottish manufacturing sector expanded at a moderate pace. That said, output growth softened for the first time since September to the slowest since December 2016.

Scottish manufacturers retained an optimistic outlook towards future output during December amid forecasts of higher new orders and planned new product launches. However, the degree of confidence fell to an 11-month low.

Q. In 12 months' time, do you expect the overall volume of output at your unit to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	37.7	55.4	6.9	+30.8	65.4	N/A
	Aug	37.2	53.5	9.3	+27.9	64.0	N/A
	Sep	41.6	48.8	9.6	+32.0	66.0	N/A
	Oct	36.2	54.3	9.4	+26.8	63.4	N/A
	Nov	38.3	52.3	9.4	+28.9	64.5	N/A
	Dec	36.1	52.5	11.5	+24.6	62.3	N/A



Manufacturing: New Orders and New Export Orders

Q. Compare the level of new orders received (UK and export) this month with the situation one month ago.

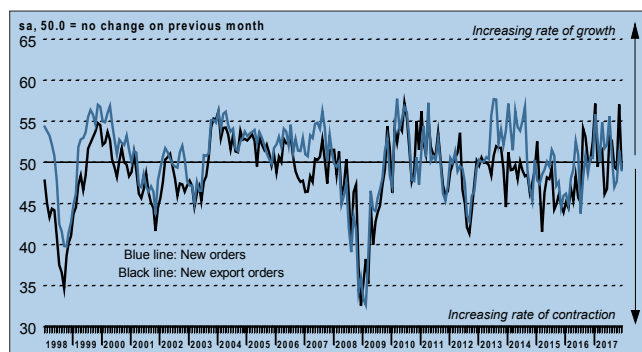
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	28.0	54.5	17.4	+10.6	55.3	55.7
	Aug	19.5	54.1	26.3	-6.8	46.6	50.7
	Sep	21.1	52.3	26.6	-5.5	47.3	47.0
	Oct	23.4	46.9	29.7	-6.3	46.9	47.7
	Nov	22.9	56.5	20.6	+2.3	51.1	51.5
	Dec	21.0	49.2	29.8	-8.9	45.6	49.1

Scottish manufacturing firms registered a decline in new order receipts during December, thereby reversing the rise that was recorded in the previous month. The rate of contraction was mild, however, and slower than those seen in September and October.

Fewer export orders were placed with Scottish manufacturers in the final month of 2017, as signalled by the seasonally adjusted index posting below the 50.0 no-change mark. That said, the pace of reduction signalled was mild overall.

Q. Compare the level of new export orders received this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	24.4	57.0	18.6	+5.8	52.9	53.1
	Aug	19.3	61.4	19.3	+0.0	50.0	52.7
	Sep	19.5	59.8	20.7	-1.2	49.4	49.5
	Oct	19.3	56.6	24.1	-4.8	47.6	49.2
	Nov	21.7	71.1	7.2	+14.5	57.2	57.1
	Dec	15.6	59.7	24.7	-9.1	45.5	49.3



Manufacturing: Employment and Backlogs of Work

Q. Compare the no. of people employed this month with the situation one month ago (treat two part-time as one full-time & ignore temps).

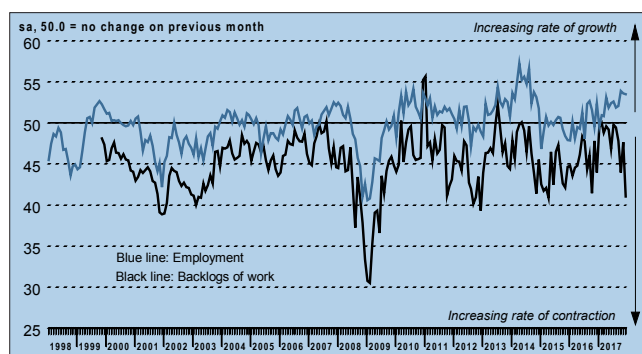
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	16.8	74.0	9.2	+7.6	53.8	52.6
	Aug	14.6	74.6	10.8	+3.8	51.9	51.9
	Sep	18.3	68.3	13.5	+4.8	52.4	52.1
	Oct	19.2	70.8	10.0	+9.2	54.6	53.9
	Nov	14.1	77.3	8.6	+5.5	52.7	53.6
	Dec	13.0	78.0	8.9	+4.1	52.0	53.5

Scottish manufacturing firms increased their workforces during December, thereby marking an eleventh consecutive month of employment growth. The rate of job creation, although softening slightly, was solid overall and faster than the average seen across the current expansion sequence. Panellists mentioned that additional staff were hired in preparation of higher output.

In line with a lower intake of new business, backlogs of work were reduced in December for the tenth successive month. In fact, the rate of depletion accelerated markedly to the sharpest since April 2015.

Q. Compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	24.6	58.5	16.9	+7.6	53.8	49.8
	Aug	17.4	62.0	20.7	-3.3	48.3	49.5
	Sep	16.2	59.5	24.3	-8.1	45.9	47.8
	Oct	13.9	59.1	27.0	-13.0	43.5	44.0
	Nov	16.8	57.5	25.7	-8.8	45.6	47.7
	Dec	6.5	58.3	35.2	-28.7	35.6	41.1



Manufacturing: Stocks of Purchases and Stocks of Finished Goods

Q. Compare your stocks of purchased goods in units this month with the situation one month ago.

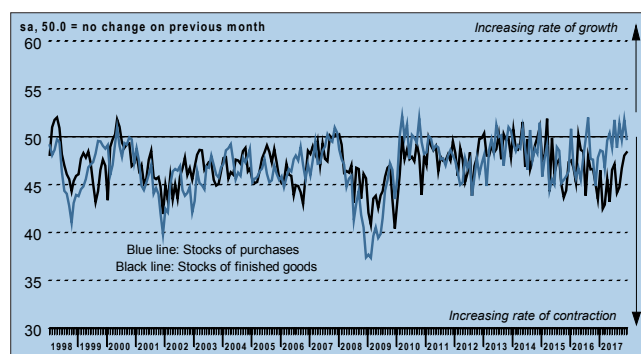
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	16.5	70.9	12.6	+3.9	52.0	51.8
	Aug	12.0	71.2	16.8	-4.8	47.6	48.8
	Sep	17.2	70.5	12.3	+4.9	52.5	51.4
	Oct	14.4	70.4	15.2	-0.8	49.6	49.7
	Nov	15.4	71.5	13.0	+2.4	51.2	51.8
	Dec	11.7	70.8	17.5	-5.8	47.1	49.8

Stocks of purchases were reduced in the Scottish manufacturing sector during December, after having risen in the previous month. That said, the rate of contraction was only slight.

The seasonally adjusted Stocks of Finished Goods Index remained below the neutral 50.0 threshold in December to signal a twentieth consecutive month where post-production inventories have fallen. The rate of depletion was modest and slowed marginally since November.

Q. Compare your stocks of finished goods in units this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	11.1	74.1	14.8	-3.7	48.1	47.2
	Aug	7.4	74.1	18.5	-11.1	44.4	44.1
	Sep	10.4	71.7	17.9	-7.5	46.2	44.7
	Oct	9.9	72.1	18.0	-8.1	45.9	46.8
	Nov	13.6	68.2	18.2	-4.5	47.7	48.1
	Dec	10.4	73.6	16.0	-5.7	47.2	48.4



Manufacturing: Quantity of Purchases and Supplier Delivery Times.

Q. Compare the quantity of items purchased (in units) this month with the situation one month ago.

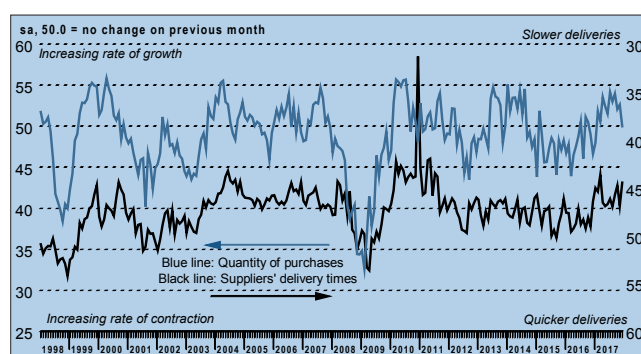
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	21.8	62.4	15.8	+6.0	53.0	54.2
	Aug	19.2	60.0	20.8	-1.5	49.2	53.0
	Sep	27.8	54.0	18.3	+9.5	54.8	54.0
	Oct	25.0	53.9	21.1	+3.9	52.0	52.1
	Nov	21.1	60.2	18.8	+2.3	51.2	52.7
	Dec	17.2	58.2	24.6	-7.4	46.3	50.0

The seasonally adjusted Quantity of Purchases Index registered at 50.0 during December to signal an unchanged level of input buying by Scottish manufacturers. While some panellists increased purchasing activity in line with higher production, others reduced it amid fewer sales.

Supplier delivery times lengthened in the latest survey period, thereby maintaining a trend that has been apparent since October 2015. Moreover, vendor performance deteriorated to the greatest extent in nine months.

Q. Compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	2.3	86.9	10.8	-8.5	45.8	46.2
	Aug	0.8	90.1	9.2	-8.4	45.8	46.9
	Sep	0.8	88.0	11.2	-10.4	44.8	45.7
	Oct	0.0	88.3	11.7	-11.7	44.1	44.8
	Nov	0.8	92.1	7.1	-6.3	46.9	46.9
	Dec	0.0	88.7	11.3	-11.3	44.4	44.5



Manufacturing: Input Prices and Output Prices

Q. Compare the average price of your purchases (volume weighted) this month with the situation one month ago.

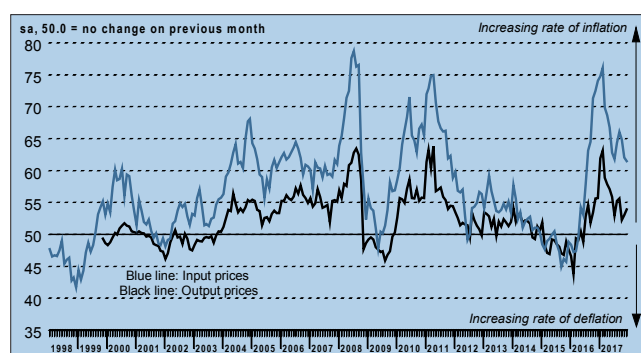
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	26.0	71.8	2.3	+23.7	61.8	61.8
	Aug	31.1	66.7	2.3	+28.8	64.4	64.4
	Sep	34.1	64.3	1.6	+32.5	66.3	66.1
	Oct	31.8	65.9	2.3	+29.5	64.7	64.9
	Nov	24.2	74.2	1.6	+22.7	61.3	62.1
	Dec	24.6	73.8	1.6	+23.0	61.5	61.5

Average cost burdens faced by Scottish manufacturers increased for the twentieth successive month in December. The rate of inflation remained steep despite decelerating to a 17-month low. Panellists attributed higher production costs to a combination of adverse exchange rate effects and higher charges from suppliers.

In turn, panellists indicated that higher costs had encouraged them to raise output charges. The current inflationary run in selling prices was extended into an eighteenth month during December. Moreover, output price inflation was solid and quickened to a three-month high.

Q. Compare the average price charged for your goods (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	9.8	86.5	3.8	+6.0	53.0	53.0
	Aug	11.3	87.2	1.5	+9.8	54.9	55.3
	Sep	10.2	89.8	0.0	+10.2	55.1	55.7
	Oct	9.2	86.3	4.6	+4.6	52.3	52.3
	Nov	10.7	84.7	4.6	+6.1	53.1	53.1
	Dec	7.9	88.9	3.2	+4.8	52.4	54.0



Services: Business Activity and Employment

Q. Compare your level of business activity (gross income, chargeable hours etc.) this month with the situation one month ago.

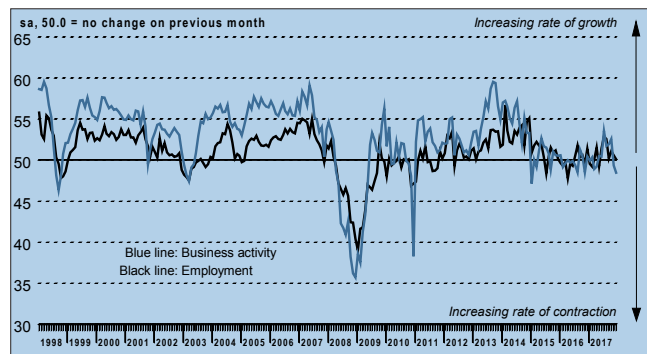
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	25.5	57.4	17.0	+8.5	54.3	53.6
	Aug	19.7	61.8	18.5	+1.2	50.6	51.7
	Sep	20.5	58.9	20.5	+0.0	50.0	51.9
	Oct	18.7	61.4	19.9	-1.2	49.4	52.6
	Nov	14.3	60.7	25.1	-10.8	44.6	49.4
	Dec	17.3	57.4	25.3	-8.0	46.0	48.5

The seasonally adjusted Business Activity Index posted below the 50.0 no-change threshold in December to signal a decline in Scottish service sector output. The rate of contraction quickened since November to a moderate pace and the joint-fastest since January 2015, on a par with November 2016.

Nonetheless, Scottish service providers hired additional staff in December. Payroll numbers have been expanded in every month since June. That said, the rate of job creation broadly slowed to a negligible pace.

Q. Compare the no. of people employed this month with the situation one month ago (treat two part-time as one full-time & ignore temps).

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	17.7	74.6	7.8	+9.9	55.0	52.9
	Aug	13.0	79.3	7.7	+5.3	52.6	52.6
	Sep	8.1	81.9	10.0	-1.8	49.1	50.2
	Oct	12.6	73.1	14.3	-1.7	49.2	51.1
	Nov	10.3	77.8	11.9	-1.6	49.2	50.6
	Dec	10.6	78.2	11.2	-0.6	49.7	50.1



Services: New Business and Business Outstanding

Q. Compare the amount of new business at your company (whether already fulfilled or not) this month with the situation one month ago.

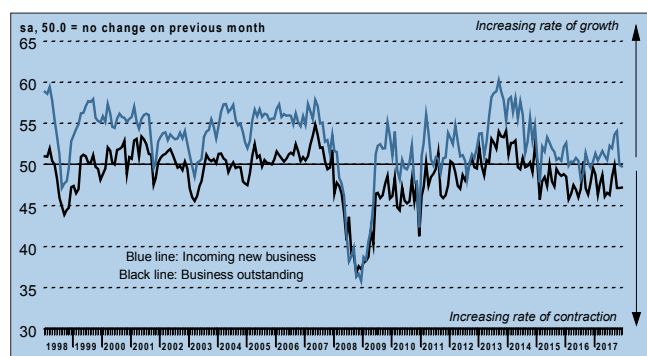
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	20.1	59.4	20.5	-0.4	49.8	52.3
	Aug	18.7	63.0	18.3	+0.4	50.2	52.0
	Sep	23.1	60.4	16.5	+6.6	53.3	53.7
	Oct	20.7	61.7	17.6	+3.1	51.5	54.1
	Nov	18.2	58.4	23.4	-5.1	47.4	50.0
	Dec	19.3	55.5	25.2	-5.9	47.1	49.8

New business placed with Scottish service sector firms declined for the first time since November 2016, albeit fractionally. Approximately one-quarter of panellists reported lower order book volumes, while 19% noted a rise.

The level of business outstanding declined in December for a sixteenth successive month. The rate of depletion was solid and unchanged from those seen in October and November. According to anecdotal evidence, fewer incoming new orders had enabled firms to clear backlogs of work.

Q. Compare the amount of business outstanding (i.e. work in hand but not yet completed) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	10.6	70.7	18.7	-8.1	46.0	46.3
	Aug	14.1	67.0	18.9	-4.9	47.6	48.5
	Sep	12.8	72.7	14.4	-1.6	49.2	49.9
	Oct	10.1	71.2	18.8	-8.7	45.7	47.2
	Nov	9.4	72.1	18.5	-9.1	45.5	47.2
	Dec	9.1	72.5	18.4	-9.3	45.3	47.2



Services: Average Costs/Input Prices and Average Prices Charged

Q. Compare the average prices paid by your company for all purchases, wages/salaries etc. this month with the situation one month ago.

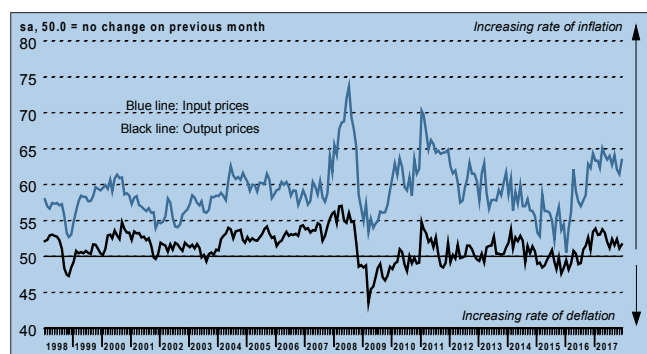
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	29.5	69.7	0.9	+28.6	64.3	64.0
	Aug	24.3	74.1	1.6	+22.7	61.3	62.8
	Sep	27.5	71.6	0.9	+26.6	63.3	64.1
	Oct	26.3	71.7	2.1	+24.2	62.1	62.1
	Nov	23.0	75.9	1.1	+21.9	60.9	61.5
	Dec	27.2	70.8	2.0	+25.2	62.6	63.5

Input costs faced by Scottish service providers increased in December. Furthermore, the rate of inflation was steep and accelerated to a three-month high. Firms frequently mentioned that higher fuel prices and intensified pay pressures had contributed to greater cost burdens.

In tandem with a quickened pace of cost inflation, selling prices were raised at a sharper rate during December. Charges have been increased in each of the past 17 months, although the latest rise was below the average seen across the current run of inflation.

Q. Compare the average prices charged by your company (e.g. prices per service or unit of time) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	6.8	89.3	3.8	+3.0	51.5	51.2
	Aug	10.1	85.5	4.4	+5.6	52.8	52.4
	Sep	8.6	84.2	7.2	+1.4	50.7	51.6
	Oct	8.3	85.8	5.8	+2.5	51.3	52.4
	Nov	7.9	82.5	9.5	-1.6	49.2	51.1
	Dec	7.4	87.3	5.2	+2.2	51.1	51.7

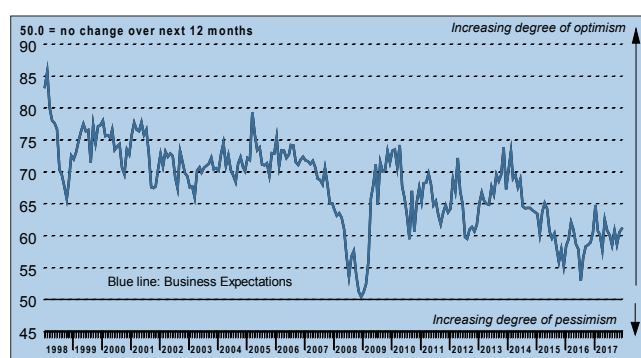


Services: Business Expectations

Q. In 12 months' time, do you expect the overall level of business activity at your unit to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jul	31.5	57.3	11.2	+20.3	60.1	N/A
	Aug	28.5	60.2	11.4	+17.1	58.5	N/A
	Sep	30.4	60.8	8.8	+21.7	60.8	N/A
	Oct	30.4	56.5	13.1	+17.3	58.6	N/A
	Nov	31.3	58.6	10.2	+21.1	60.6	N/A
	Dec	34.6	53.1	12.3	+22.3	61.2	N/A

Scottish service sector businesses maintained a positive outlook regarding future activity during December. Furthermore, the degree of optimism strengthened to a seven-month high. Continued investment, increased advertising and planned company expansions were all cited as reasons to be confident.



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 40 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 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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