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BANK OF SCOTLAND PMI[®]: PRIVATE SECTOR OUTPUT EXPANDS AT FASTEST PACE IN FIVE MONTHS

- Employment growth resumes amid increased new orders
- Input cost inflation continues to outpace that of output prices
- Business confidence strengthens

Scottish private sector companies concluded the first quarter of 2018 with a renewed increase in output. Higher business activity was underpinned by a moderate rise in new orders. Encouraged by the upturn in demand, firms hired additional staff to cope with the greater workload, despite capacity pressures easing for a thirty-ninth straight month.

The seasonally adjusted headline Bank of Scotland PMI[®] - a single-figure measure of the month-on-month change in combined manufacturing and services output - returned to expansionary territory in March, posting 50.8 compared to 49.5 in February. This marked the strongest (albeit modest overall) rise in private sector activity since October 2017.

New orders placed with Scottish private sector firms rose moderately in March. According to panellists, new client wins and higher demand from abroad contributed to greater new business inflows. In turn, additional staff were recruited to enhance operating capacity.

Despite the renewed increase in new business inflows, backlogs of work continued to be cleared during March, continuing a trend which has been apparent since January 2015. That said, the rate of reduction in unfinished work softened overall.

Another month of sharp input cost inflation was observed in March. Panellists noted higher food, fuel and labour costs. In response, output prices were raised to partially offset profit margin erosion. The rate of increase in selling charges was the fastest since May 2017.

Finally, an optimistic outlook towards activity over the coming 12 months was retained in March. Positive sentiment was attributed to planned company expansions, new product launches and forecasts of new business wins.

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

“Scottish private sector output increased at the fastest rate in five months during March. Although a mild pace of expansion, it was underpinned by the first activity upturn in the services sector since October last year.

“Employment returned to growth amid a renewed inflow of new work. Survey respondents gained confidence from the positive business conditions, with optimism strengthening.

“In turn, firms were more willing to raise selling charges and share greater cost burdens with their clients. Notably, firms mentioned higher wages had driven up operating expenses in March”.

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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.

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>.

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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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