PRESS RELEASE BANK OF SCOTLAND

Compiled by Markit for Bank of Scotland, this report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 600 private manufacturing and service sector companies. The panel is carefully selected to accurately replicate the true structure of the Scottish economy.

NOT FOR BROADCAST OR PUBLICATION BEFORE 00:01, MONDAY 10 DECEMBER 2012

BANK OF SCOTLAND PMI: MARGINAL GROWTH IN PRIVATE SECTOR ACTIVITY IN NOVEMBER

- **Growth slows amid continuing weakness in new work**
- **Employment stable for third straight month**
- **Input price inflation remains strong**

The latest **Bank of Scotland *PMI* report** showed that operating conditions for businesses north of the border remained challenging in November. Output levels continued to rise only marginally, owing to further weakness in new business inflows. Employment was unchanged over the month, with data highlighting a degree of excess capacity within the economy. Cost pressures faced by businesses remained elevated, leading to a squeeze on margins as charges stagnated amid the weakening trend in demand.

November saw the Bank of Scotland PMI fall from 50.7 in October to 50.3, signalling only a marginal increase in the combined **output** of Scottish manufacturers and service providers in the penultimate month of the year. That was in line with the trend recorded across the UK economy as a whole.

Behind the slowdown in output growth in Scotland was a further drop in the level of **new work** placed with businesses. The latest decrease was the fifth in as many months, which anecdotal evidence linked to weakening demand in domestic and international markets alike. Indeed, manufacturers recorded another (albeit weaker) decrease in new export orders.

As was the case in the previous two months, the level of **employment** at Scottish private sector businesses remained unchanged during November. However, unlike in September and October when hiring at services firms offset job losses in manufacturing, both sectors recorded static staffing numbers in the latest survey period.

There was evidence of spare capacity at Scottish businesses in November, with **backlogs of work** reduced for a fifteenth straight month. The rate of decline was little-changed from October's modest pace, however, and weaker than that seen across the UK as whole.

Average input prices faced by Scottish firms continued to rise at a marked rate in November, in part reflecting the increased cost of oil and related products. The pace inflation was slightly faster than the historical trend, and well in excess of that registered at the UK level.

Despite the considerable rise in cost burdens, **output prices** in Scotland's private sector economy increased only marginally on average. The increase was the weakest in the current four-month sequence.

Donald MacRae, Chief Economist at Bank of Scotland, said: "The private sector of the Scottish economy grew marginally in November with growth in the service sector offsetting a fall in manufacturing output. The Scottish economy is showing the strains of maintaining growth momentum against a background of weak domestic and international demand. Despite this challenging environment, employment was maintained in the month."

Component Summary

Output / Business Activity

Business activity at Scottish **service providers** increased only marginally in November. The rate of expansion was the slowest since May, and comfortably below the average recorded over the ongoing 23-month sequence of growth. That corresponded with a weaker increase in new work compared with the preceding month.

November data pointed to a fifth successive monthly decrease in output at Scottish **factories**. Where a drop in production levels was recorded, this was often linked by surveyed businesses to reduced intakes of new orders, including from clients located abroad. However, the overall rate of contraction was only marginal, and unchanged from that registered in the preceding survey period.

New Business

Service providers north of the border recorded a third straight monthly increase in the amount of new business received. That said, the rate of growth eased since the prior survey period and was only modest overall. Factors reported by the survey panel as having a negative influence on new work intakes included indecision among clients and reduced bank lending.

The level of new orders received by **manufacturers** operating in Scotland decreased again during November, stretching the ongoing sequence of decline to eight months. Albeit the weakest since July, the overall rate of contraction was still solid.

Backlogs

November saw a slight decline in the volume of outstanding business at Scottish **services** companies, following the first rise for eight months in October. According to anecdotal evidence, a number of businesses were able to make inroads into unfinished work due to a softening trend in new order inflows.

With incoming new work falling again in November, Scottish **manufacturers** were able to dedicate more resources to the clearing of backlogs. Outstanding business fell sharply, albeit at the slowest pace in five months. Almost twice the number of firms recorded lower levels of work-in-progress as registered an increase.

Input prices

Average operating costs for **service providers** in Scotland continued to increase at a sharp rate that in November, and one that was unchanged from the previous survey period. According to anecdotal evidence, rises in the costs of food, fuel and labour were the primary sources of inflationary pressure.

November saw average input prices faced by Scottish **manufacturers** increase at a faster pace. In fact, the rate of inflation was the sharpest since April. According to surveyed businesses, increased cost burdens mostly reflected paying higher prices for oil and a number of raw materials than one month ago.

Output prices

Scottish **service providers** absorbed their higher costs during November as part of efforts to generate new business and amid increased competitive pressures, keeping output prices broadly unchanged from one month before. That followed a modest increase in charges during October.

Despite being faced with stronger cost pressures, Scottish **manufacturers** raised output prices at a slower rate in November. The latest rise in average factory gate prices was only marginal, and the weakest in the current four-month sequence of charge inflation.

Employment

Following five straight months of job creation in the sector, staffing numbers at Scottish **service providers** virtually stagnated during November. While a number of businesses added to their payrolls amid increasing workloads, several firms reported inadequate strength in demand to justify recruitment.

After contracting in the each of the previous three months, the size of Scotland's **manufacturing** workforce was broadly stable during November. Firms that recruited additional staff over the month mentioned attempts to reduce backlogs and hiring to coincide with the launch of new products. On the other hand, job losses were linked to lower workloads.

Notes to editors

The Bank of Scotland *PMI* is compiled by Markit for Bank of Scotland and is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 600 private manufacturing and service sector companies. The panel has been carefully selected to accurately replicate the true structure of the Scottish economy.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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.

About Markit
Markit is a leading global financial information services company with over 2,500 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial marketplace. For more information, see www.markit.com.

For further information, contact:
Zoe Redhead, Bank of Scotland Press Office
Tel: 0131 655 5405 / 07809 551491
Email: zoeredhead@bankofscotland.co.uk
Web: www.lloydsbankinggroup.com/media.asp

For technical enquiries, contact:
Phil Smith,
Markit
Economist
Tel: 01491 461 009
Email: phil.smith@markit.com