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News Release

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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Lloyds TSB England Regional PMIs

Spring slowdown extended into May, with all regions outside London reporting weaker output growth

Key points:

- Most English regions saw the slowest rate of output growth in 2011 to date.
- East Midlands was the fastest growing region amid sharpest rise in new work for almost four years.
- Input cost inflation continued to slow in May.

The East Midlands replaced the South East as the fastest growing English region in May, according to the latest survey data from the **Lloyds TSB regional *Purchasing Managers' Index® (PMI®)***. There was, however, a moderation in output growth across eight of the nine English regions, with only London bucking the slowdown trend. Anecdotal evidence suggested that weaker growth reflected a combination of softer underlying client demand and the extended bank holidays in late April (respondents are asked to compare mid-month to mid-month so May's survey period covers mid-April to mid-May).

Job creation at private sector firms remained modest in May, with robust growth in the West Midlands and East Midlands the main exceptions. The latest PMI data meanwhile provided further evidence to suggest that input cost inflation has passed its recent peak, with all English regions posting slower cost rises than the highest point seen in the first quarter of 2011.

Comment

Commenting on the Lloyds TSB Regional PMIs, John Maltby, managing director, Lloyds TSB Commercial, said:

"The latest regional PMI figures are consistent with a softening of UK GDP growth in the second quarter of 2011, with Yorkshire & Humber and the South West on track for particularly sharp slowdowns. Temporary factors such as the extended bank holidays in April have added to the underlying moderation in growth, with the recent disruptions to business activity especially felt among smaller manufacturing companies.

"Signs of a slowing global recovery provided an unfavourable backdrop in May and in turn had an adverse impact on business confidence. As a result, new business gains and private sector job creation remained subdued outside of the strong manufacturing-led upturn in the Midlands.

"One positive sign in May was the continued moderation in cost pressures, with all English regions indicating that input price rises were weaker than seen on average through the first quarter. While undoubtedly a welcome relief to businesses, the latest survey suggested that firms, especially those outside of London, are still taking a hit to their margins rather than fully passing through cost rises to their clients."

Output and demand

May data signalled a general slowdown in output growth across the English regions, with the weakest rises in business activity recorded in Yorkshire & Humber and the South West respectively. These two regions have also seen the greatest moderations in output growth relative to their high points in 2011 so far.

In line with the trend for business activity, latest data placed the East Midlands as the best performing region in terms of new order growth. The latest expansion was the fastest since June 2007. However, the overall trend across the English regions was of slower new business growth in May, notably in the East of England where the latest gains in new work were the weakest for two years. The South West also posted a sharp slowdown in new business growth, with the latest expansion the least marked of the nine English regions. Sector data suggested that softer rises in new business were broad-based across the manufacturing and services economy.

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Employment and backlogs

Higher levels of business activity and new work prompted private sector employment growth in all nine English regions, although in the majority of cases the pace of expansion was relatively modest. The West Midlands and East Midlands bucked the wider trend, with the latter recording the steepest increase in the number of jobs created since June 1997. The West Midlands nonetheless topped the regional employment growth table, with strong manufacturing job creation contributing to the second-steepest rise in staffing levels since the survey began in January 1997.

Notwithstanding the pockets of solid growth in the Midlands, companies generally commented that the uncertain economic outlook and concerns about a slowdown in the global recovery had an adverse impact on staff hiring during the latest survey period.

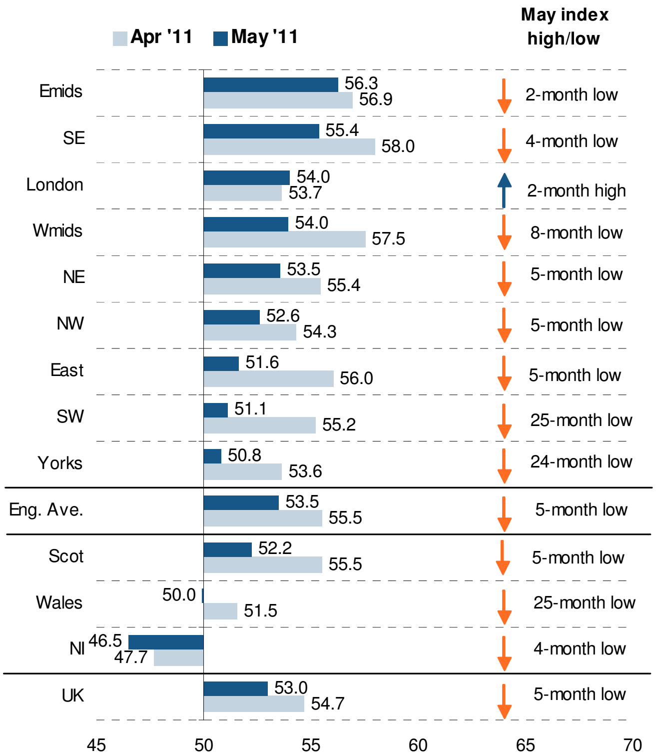
Input and output prices

Input cost inflation slowed in May across all English regions except the South West. Although still historically strong, in the majority of regions the latest rise in average input prices was the least marked since the final quarter of 2010. Where an increase in cost burdens was reported, firms generally commented on higher raw material, fuel, energy and utility prices at their units.

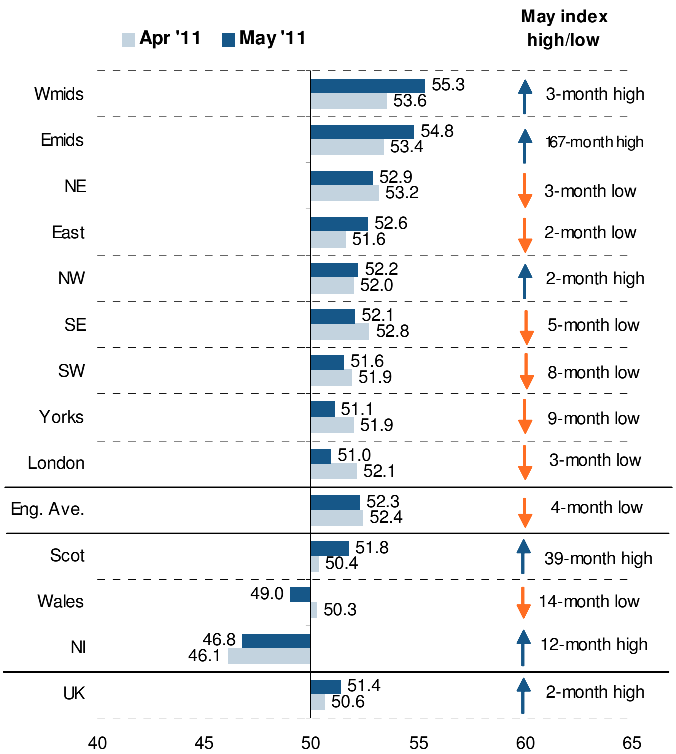
Weaker cost inflation fed through to slower output charge rises in the majority of English regions. A considerable regional divergence continued in May, with sharp prices charged inflation in the North West contrasting with subdued rises in London and the South West. This in part reflected much stronger output charge inflation in manufacturing than services in the latest survey period.

Although companies continued to raise their average tariffs in May, anecdotal evidence suggested that subdued demand meant that the full extent of recent cost rises could not be passed on to clients. By region, the gap between input and output price inflation was largest in the South West and Yorkshire & Humber, while London saw the smallest differential in May.

PMI Business Activity (Output) Index



PMI Employment Index



Numbers relate to monthly seasonally adjusted diffusion indexes. An index reading above 50 signals an increase on the previous month. A reading below 50 signals a decline. The greater the divergence from 50, the greater the rate of change indicated.

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Notes to Editors:

England's Regional PMIs are based on data compiled in May 2011 from monthly replies to questionnaires sent to purchasing executives in over 1200 private manufacturing and service sector companies. Panels have been carefully selected to accurately replicate the true structure of the UK private sector 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.

The *Purchasing Managers' Index® (PMI®)* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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Purchasing Managers' Index® (PMI®) surveys are now available for 32 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/economics.

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