

**NOT FOR BROADCAST OR PUBLICATION BEFORE 00:01, FRIDAY 29 JUNE 2012**

## SCOTTISH ECONOMY STAGNATING

The latest Lloyds TSB Scotland Business Monitor shows the Scottish economy stagnating.

In the three months ending May 2012, just under a third (32%) of firms surveyed increased turnover, 35% experienced static turnover, and a third (33%) experienced a decrease. This gave a net balance of -1%; an improvement from the -6% of the previous quarter but a slight deterioration on the +2% of the same quarter one year ago.

This latest Business Monitor has uncovered a very slight improvement but essentially reveals an economy stagnating. While a return to recession is not indicated, there is no sign of a vigorous resurgence in growth.

The overall net balance for turnover for firms in the production sector in the three months to end May this year was +4%. This is very slightly up on the +2% of the previous quarter and is almost similar to the +3% of the same quarter one year ago.

Service businesses did not experience such benign conditions with the overall net balance for turnover for the three months ending May at -5% - better than the -11% of the previous quarter but slightly worse than the +1% of the same quarter one year ago.

Volumes of repeat business were similar to the previous quarter with a net balance of -7% this quarter compared to -9% in the previous quarter, and similar to the -5% of the same quarter one year ago. Trends in the volume of new business are better, with an overall net balance of +4% - a significant improvement on the -6% of the previous quarter and a slight improvement on the +2% of the same quarter one year ago.

In the latest three months the net balance of export activity was +9% - a significant improvement from the -4% of the previous quarter and the +3% of the same quarter one year ago. Expectations for export activity in the next six months to end November this year improved marginally with a net balance of +5% compared to +4% of the previous quarter. However, exporters have to deal with a slowing global economy.

Firms' assessment of their immediate prospects in the next six months improved dramatically in the last Business Monitor. That improvement has been maintained in the latest report. Expectations for turnover in the next six months have risen to an overall net balance of +3% - a very slight but important uplift from the +2% of the previous quarter but down from the +7% of the same quarter one year ago. Forty-three percent expect their turnover to be unchanged in the next six months while 27% expect a decrease, but 30% expect to increase their turnover. This is still a weak result but has more firms expecting an increase than a decrease and does not indicate a return to recession. Business confidence remains depressed compared to pre-recession levels. In a reversal from the previous Business Monitor, production firms are marginally positive with a net balance of +1% compared to a higher level of confidence in the service sector at +5% in the three months to end May.

Expectations for the volume of repeat business were unchanged at an overall net balance of -3% for this quarter - identical to the previous quarter. Expectations for the volume of new business have improved significantly to an overall net balance of +5% compared to a -5% for the previous quarter, but slightly down on the +7% of the same quarter one year ago. Service businesses are marginally more optimistic with an overall net balance of +6% compared to +4% for production businesses. The rise, although small, in expectations for new business is very welcome and again does not suggest a return to recession.

Donald MacRae, chief economist, Lloyds TSB Scotland said: "This latest Business Monitor suggests the Scottish economy continues to stagnate and is struggling to maintain a limited degree of growth momentum in the face of a global slowdown. However, there is no definite sign of a relapse into a "double dip" but a suggestion of continuing slow recovery with low growth. Business confidence has not fallen further but remains at a low level. A return to more vigorous growth in the Scottish economy awaits an increase in confidence in both consumers and businesses. This in turn depends upon convincing evidence of policy initiatives to foster growth in both the Eurozone and UK economies."

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**For further information:**

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