

Bank of Scotland PMI®

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.

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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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February 13th 2017

Output growth quickens at start of 2017

Key findings:

- Scottish private sector upturn strengthens in January
- New business levels expand at sharpest pace for 20 months
- Fastest rise in selling prices since February 2011

The health of Scotland's private sector improved again at the beginning of 2017. A sharper increase in new business levels led firms to raise their output at a faster pace. However, backlogs of work continued to deteriorate and employment was reduced again, having risen slightly at the end of 2016. Meanwhile, inflationary pressures persisted in the sector, as a marked increase in input costs was reflected in the sharpest rate of output price inflation since February 2011.

Output and demand

The seasonally adjusted headline Bank of Scotland PMI - a single-figure measure of the month-on-month change in combined manufacturing and services output - hit a four-month high of 51.2 in January. Up from 50.7 in December, the latest increase signalled a stronger upturn in Scotland's private sector economy. However, the rate at which business conditions improved was only modest. At the sector level, manufacturers increased their output at the quickest pace for 34 months, while service providers reported unchanged business activity since December.

New business received by Scotland's private sector companies expanded at the quickest pace for 20 months at the start of 2017. While service providers linked the rise with an uptick in demand from EU clients, manufacturers commented on improved marketing campaigns.

Employment and backlogs

Job cuts were evident in Scotland's private sector in January. The rate of decline was broad-based amongst manufacturing and service sector companies, despite being only slight overall. There was some evidence linking the fall in staffing levels with efforts to reduce costs.

As has been the case for the previous 25 months, Scottish private sector companies continued to work through their outstanding business in January.

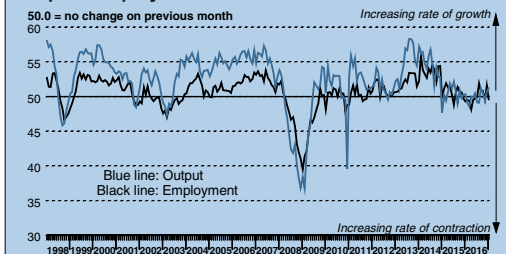
Input and output prices

Scotland's private sector businesses recorded a sharp increase in their input prices in January, with firms blaming this on the current weakness of the pound. Input costs have now risen in every month for the past year.

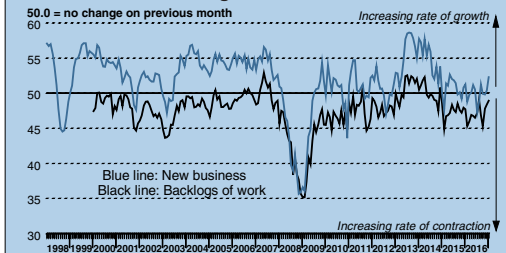
Subsequently, firms raised their selling prices further. The pace of inflation was substantial and the quickest since February 2011, as both manufacturing and services companies raising output charges at historically strong rates.

Bank of Scotland PMI summary

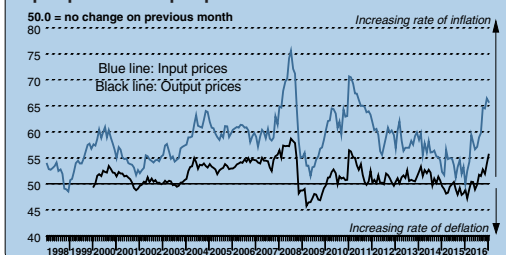
Output / employment



New business / backlogs of work



Input prices / output prices



Composite index summary

	Output		New Business		Backlogs of Work	
	Scotland	UK	Scotland	UK	Scotland	UK
Aug'16	49.1	53.5	48.8	53.1	49.1	50.4
Sep	51.2	53.8	51.3	54.2	46.9	50.2
Oct	50.6	54.8	49.9	56.0	45.3	49.9
Nov	49.4	55.3	49.8	55.0	47.8	50.8
Dec	50.7	56.7	50.4	58.2	48.4	51.2
Jan'17	51.2	55.5	52.3	56.3	49.0	49.8
	Employment		Input Prices		Output Prices	
	Scotland	UK	Scotland	UK	Scotland	UK
Aug'16	51.9	50.8	59.0	59.3	51.8	52.9
Sep	50.9	51.6	59.8	60.8	51.6	53.2
Oct	50.8	51.7	64.7	67.5	52.8	54.5
Nov	49.5	52.5	64.5	66.3	52.0	53.9
Dec	51.6	52.7	66.4	66.2	53.9	54.7
Jan'17	49.6	51.3	65.8	68.8	55.6	55.3

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.

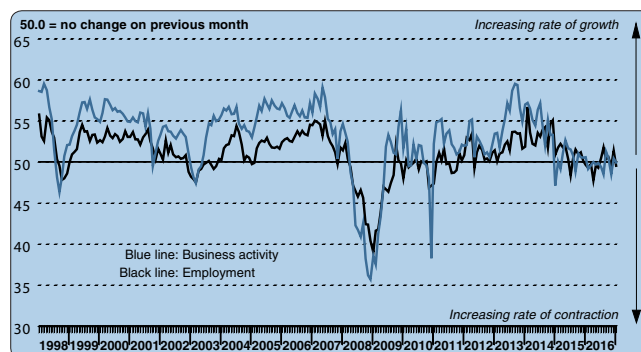
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	23.2	49.8	27.0	-3.7	48.1	48.6
	Sep	20.6	58.0	21.4	-0.8	49.6	51.3
	Oct	16.5	60.8	22.8	-6.3	46.8	50.5
	Nov	15.2	59.3	25.5	-10.3	44.9	48.5
	Dec	18.7	58.9	22.4	-3.7	48.1	50.5
2017	Jan	17.0	57.4	25.5	-8.5	45.7	50.0

Business activity in Scotland's service sector stagnated in the first month of 2017. Where an increase in output was recorded, firms attributed this to higher new business, while declines were partly linked with Brexit uncertainty. According to sub-sector data, business services and financial services reported an uptick in activity, in comparison to travel, tourism & leisure firms which registered a decline.

Meanwhile, Scottish service providers lowered their workforce numbers in January, after having raised them in the final month of 2016. That said, the rate of job shedding was only slight. There was some evidence attributing the fall in headcounts with efforts to cut costs.

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
2016	Aug	13.2	77.4	9.4	+3.8	51.9	51.8
	Sep	9.6	79.6	10.8	-1.3	49.4	50.4
	Oct	9.9	77.2	12.9	-3.0	48.5	50.6
	Nov	11.6	71.4	17.0	-5.4	47.3	49.5
	Dec	11.7	78.7	9.6	+2.1	51.0	51.4
2017	Jan	8.9	78.7	12.3	-3.4	48.3	49.6



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.

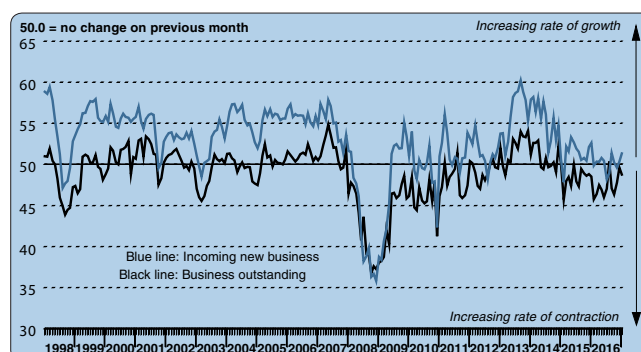
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	22.7	50.7	26.7	-4.0	48.0	49.0
	Sep	22.3	56.8	21.0	+1.3	50.7	51.4
	Oct	18.7	56.9	24.4	-5.8	47.1	50.3
	Nov	18.3	58.7	23.0	-4.8	47.6	49.6
	Dec	19.7	56.8	23.6	-3.9	48.0	50.4
2017	Jan	21.6	58.6	19.8	+1.8	50.9	51.4

The seasonally adjusted New Business Index posted further above the all-important 50.0 no-change mark in January, thereby signalling a faster rate of new order growth in Scotland's service sector. In fact, the pace of expansion was the sharpest since September. Higher new business reflected a combination of newly available services and stronger demand from EU clients.

Firms continued to work through their backlogs of work during January, as highlighted by the seasonally adjusted Business Outstanding Index posting below the crucial 50.0 no-change mark. Although the rate of deterioration accelerated since December, it was only modest overall. A solid accumulation of incomplete work in the financial services sector eased the total decline in backlogs during the month.

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
2016	Aug	15.1	68.8	16.1	-1.0	49.5	50.4
	Sep	11.6	70.5	17.9	-6.3	46.9	47.1
	Oct	8.3	73.2	18.5	-10.2	44.9	46.4
	Nov	11.2	68.8	20.0	-8.8	45.6	47.8
	Dec	11.8	75.0	13.2	-1.5	49.3	49.6
2017	Jan	9.0	77.1	13.9	-5.0	47.5	48.8



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.

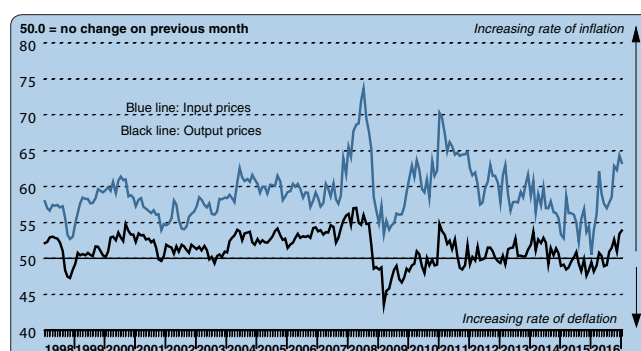
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	17.3	81.4	1.3	+16.0	58.0	57.8
	Sep	18.7	79.7	1.7	+17.0	58.5	58.5
	Oct	27.4	70.5	2.1	+25.2	62.6	62.9
	Nov	26.1	71.0	2.9	+23.2	61.6	62.3
	Dec	27.4	70.5	2.1	+25.3	62.7	64.4
2017	Jan	32.2	65.3	2.5	+29.7	64.8	63.4

Scotland's service sector businesses recorded a further increase in average cost burdens in the opening month of 2017. In fact, the rate of inflation was the second-sharpest reported over the past five years and substantial overall. Almost one-in-three panellists registered a rise in input costs, compared to only 3% that reported a decline.

In line with the trend for input prices, Scottish service providers recorded a further rise in selling prices in January. Inflation has now been registered in each of the past six months. Moreover, the rate of inflation was the sharpest for six years. All three monitored sub-sectors increased their output charges.

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
2016	Aug	7.2	89.0	3.8	+3.4	51.7	51.0
	Sep	7.5	86.7	5.8	+1.7	50.8	51.5
	Oct	8.5	85.2	6.4	+2.1	51.1	52.6
	Nov	7.9	85.5	6.6	+1.2	50.6	51.0
	Dec	10.5	82.8	6.7	+3.8	51.9	53.4
2017	Jan	14.0	80.9	5.1	+8.9	54.4	53.9



Manufacturing: Output and Employment

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

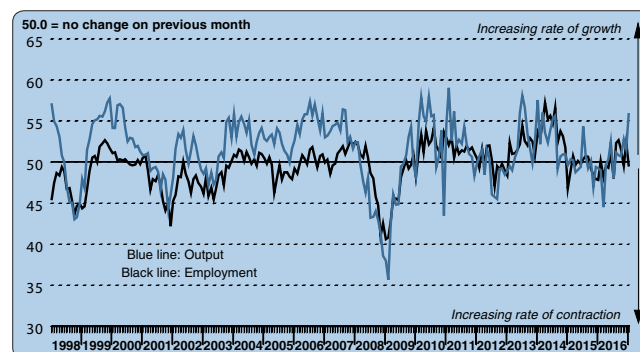
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	24.4	46.5	29.1	-4.7	47.6	51.1
	Sep	23.9	55.2	20.9	+3.0	51.5	50.9
	Oct	26.2	49.2	24.6	+1.5	50.8	50.7
	Nov	25.4	53.8	20.8	+4.6	52.3	52.8
	Dec	23.8	51.6	24.6	-0.8	49.6	51.6
2017	Jan	23.7	47.3	29.0	-5.3	47.3	55.8

Survey data collected in the first month of 2017 pointed to a marked increase in Scottish manufacturing production. In fact, the rate of growth accelerated to the sharpest in 34 months. Rising output has now been evident since last August, with panellists linking the latest increase with stronger underlying demand.

The seasonally adjusted Employment Index fell below the 50.0 neutral threshold in January, thereby signalling a reduction in Scottish manufacturing employment. However, the rate of contraction was only slight. A decline in manufacturing employment has been registered in two out of the past three months.

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
2016	Aug	13.5	79.4	7.1	+6.3	53.2	52.3
	Sep	15.7	73.1	11.2	+4.5	52.2	52.7
	Oct	13.6	77.3	9.1	+4.5	52.3	51.6
	Nov	9.3	80.6	10.1	-0.8	49.6	49.6
	Dec	11.9	79.4	8.7	+3.2	51.6	52.4
2017	Jan	11.5	70.0	18.5	-6.9	46.5	49.6



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.

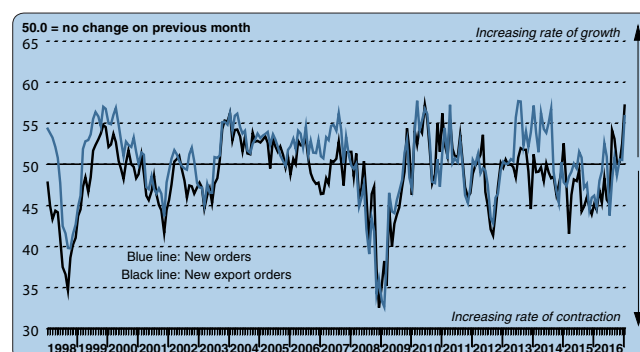
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	20.9	46.5	32.6	-11.6	44.2	48.1
	Sep	24.3	55.1	20.6	+3.7	51.8	50.9
	Oct	21.2	52.3	26.5	-5.3	47.3	48.7
	Nov	24.2	49.2	26.5	-2.3	48.9	50.6
	Dec	24.4	45.7	29.9	-5.5	47.2	50.6
2017	Jan	24.4	50.4	25.2	-0.8	49.6	55.9

In line with the trend of production, Scotland's manufacturing businesses received a higher level of new orders in January. Moreover, the rate of growth was marked and quickened to the sharpest since August 2014. While some panellists attributed the rise in new business to improved marketing campaigns, others reflected on stronger economic conditions.

Scotland's goods-producing businesses registered a sharper uptick in demand from foreign clients at the start of 2017. The rate at which new export orders grew quickened to a 79-month high, and was substantial in the context of historical data. According to panellists, the weakness of the pound was the main factor driving new business from abroad.

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
2016	Aug	18.4	63.2	18.4	+0.0	50.0	54.2
	Sep	27.0	55.1	18.0	+9.0	54.5	53.1
	Oct	17.6	63.5	18.8	-1.2	49.4	50.3
	Nov	17.9	63.1	19.0	-1.2	49.4	50.3
	Dec	20.5	57.8	21.7	-1.2	49.4	52.6
2017	Jan	24.7	60.0	15.3	+9.4	54.7	57.2



Manufacturing: Backlogs of Work and Stocks of Finished Goods

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

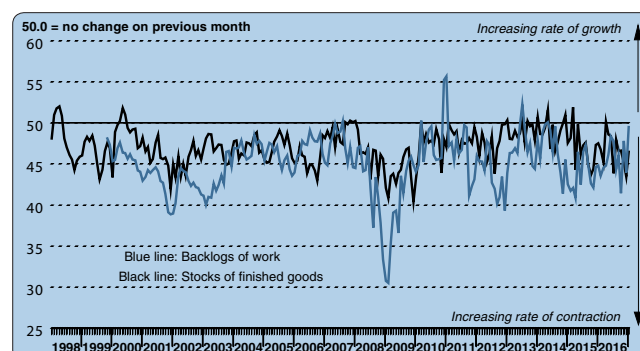
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	17.9	52.1	29.9	-12.0	44.0	44.4
	Sep	14.4	64.4	21.2	-6.8	46.6	46.1
	Oct	12.8	61.5	25.6	-12.8	43.6	41.5
	Nov	14.7	64.7	20.7	-6.0	47.0	47.8
	Dec	11.7	58.6	29.7	-18.0	41.0	44.0
2017	Jan	13.6	66.1	20.3	-6.8	46.6	49.5

The seasonally adjusted Backlogs of Work Index posted below the crucial 50.0 threshold again in January, lengthening the current sequence of decline to 32 months. However, the latest deterioration was the second-weakest during this trend and only slight overall. Some firms worked through their outstanding business levels in order to satisfy the rise in demand.

Meanwhile, firms operating in Scotland's manufacturing sector reported a further reduction in post-production inventories during the opening month of 2017. Although the rate of decrease eased to the slowest in three months, it was still relatively robust. A fall in finished goods stock has been reported in the past nine successive months.

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
2016	Aug	14.7	67.9	17.4	-2.8	48.6	48.0
	Sep	11.5	69.9	18.6	-7.1	46.5	46.6
	Oct	12.5	67.0	20.5	-8.0	46.0	46.7
	Nov	10.8	66.7	22.5	-11.7	44.1	45.2
	Dec	8.3	66.7	25.0	-16.7	41.7	43.5
2017	Jan	4.6	76.9	18.5	-13.9	43.1	46.5



Manufacturing: Quantity of Purchases and Suppliers' Delivery Times

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

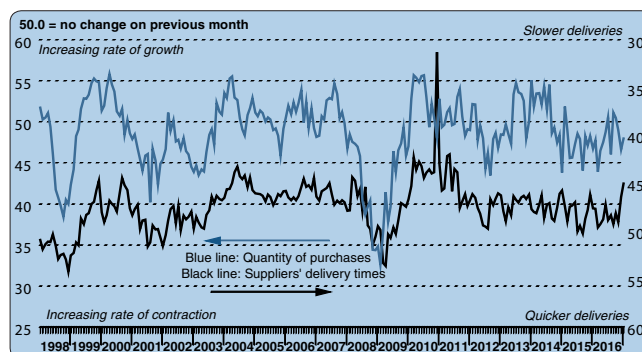
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	17.2	52.3	30.5	-13.3	43.4	46.0
	Sep	22.4	58.2	19.4	+3.0	51.5	51.1
	Oct	26.0	50.4	23.7	+2.3	51.1	50.5
	Nov	18.8	57.0	24.2	-5.5	47.3	49.0
	Dec	15.0	57.5	27.6	-12.6	43.7	46.7
2017	Jan	14.6	53.8	31.5	-16.9	41.5	48.0

Latest survey data pointed to a further decline in purchasing activity at Scottish manufacturers in January. Input buying has now fallen for three straight months, although the latest reduction eased since December. Where a decline in buying activity was reported, some firms cited stock building efforts during the prior year.

Vendor performance in Scotland's manufacturing sector deteriorated for the sixteenth successive month in January. In fact, the rate at which average lead times lengthened increased at the quickest pace in nearly five-and-a-half years. There was some evidence that supplier delivery times were impacted by adverse weather conditions.

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

		Faster %	Same %	Slower %	Net %	Index	S.Adj Index
2016	Aug	1.6	90.5	7.9	-6.3	46.8	48.3
	Sep	0.8	94.7	4.5	-3.8	48.1	49.2
	Oct	1.5	93.1	5.4	-3.8	48.1	48.1
	Nov	3.9	88.4	7.8	-3.9	48.1	49.0
	Dec	4.8	84.1	11.1	-6.3	46.8	46.4
2017	Jan	0.8	89.2	10.0	-9.2	45.4	45.0



Manufacturing: Input Prices and Output Prices

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

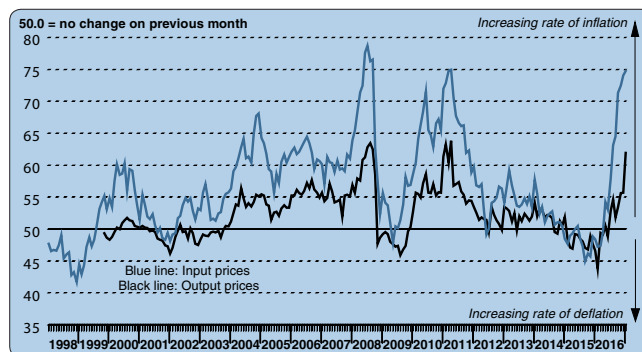
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2016	Aug	28.1	69.5	2.3	+25.8	62.9	63.2
	Sep	29.9	69.4	0.7	+29.1	64.6	64.6
	Oct	42.7	56.5	0.8	+42.0	71.0	71.4
	Nov	46.5	51.9	1.6	+45.0	72.5	72.5
	Dec	43.3	56.7	0.0	+43.3	71.7	74.1
2017	Jan	48.5	50.8	0.8	+47.7	73.8	74.8

Scotland's manufacturing businesses faced a further increase in input costs at the start on 2017. In fact, the rate of inflation was substantial and one of the sharpest seen during the survey's 19-year history. Just over 48% of panellists recorded a rise in their average cost burdens, with many commenting on exchange rate movements as the main factor driving the latest rise in input prices.

Subsequently, Scottish goods producers raised their selling prices in January. The rate at which firms raised their output charges accelerated to a 69-month high and was substantial overall. Around one-in-four manufacturers increased their output prices during January, in comparison to just under 1% which reported a reduction.

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
2016	Aug	14.0	81.4	4.7	+9.3	54.7	54.7
	Sep	8.9	85.9	5.2	+3.7	51.9	51.9
	Oct	14.4	78.0	7.6	+6.8	53.4	53.4
	Nov	16.7	78.0	5.3	+11.4	55.7	55.7
	Dec	14.1	81.3	4.7	+9.4	54.7	55.7
2017	Jan	25.8	73.5	0.8	+25.0	62.5	62.0



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 www.markit.com/product/pmi.

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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.