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SCOTLAND'S EXPORT ACTIVITY CONTINUES STRONG RECOVERY

The Scottish economy is continuing its slow recovery from recession, according to the latest Lloyds TSB Scotland Business Monitor.

For the three months ending August 2011, results showed that over a third (34%) of firms surveyed increased turnover, 32% experienced static turnover while 34% experienced a decrease. This gave a net balance of 0%; a very slight deterioration from the +2% of the previous quarter but a significant improvement on the -7% of the same quarter one year ago. This is the second most positive result in the last three and a quarter years.

This latest Business Monitor shows a largely unchanged position from the previous quarter with neither an acceleration in the rate of recovery nor a return to recession. However, expectations for the next six months have declined from the previous quarter.

The overall net balance for turnover for firms in the production sector was 0%; worse than the +3% of the previous quarter but significantly up on the -14% on the same quarter last year.

Service businesses also reported an overall net balance of 0% for turnover this quarter. This is largely unchanged from the +1% of the previous quarter but slightly better than the -4% of the same quarter one year ago. The service sector recovery is muted and mild.

Volumes of repeat business showed an improvement from the previous quarter with the net balance on volume of repeat business at -1% this quarter compared to -5% in the previous quarter and -5% in the same quarter one year ago. The trend in the volume of new business is less encouraging. An overall net balance of -3% was recorded compared to the +2% of the previous quarter and the -4% of the same quarter one year ago.

At -3% the overall balance for volume of new business is one of the best results in the Business Monitor for three and a quarter years but is still well below the pre-recession levels indicating a muted recovery at best.

There is a much more encouraging result from the levels of export activity. In the latest three months export activity showed an overall net balance of +10% compared to the +3% of the previous quarter and the +2% of the same quarter one year ago. Domestic demand seems depressed while export activity is showing the second best result for four years.

Firms' assessment of their immediate prospects in the next six months have deteriorated. Expectations for turnover differ widely between sectors. Production firms are more pessimistic with an overall net balance of -9%. This has fallen from the +11% of the previous quarter and the +6% of the same quarter one year ago. Thirty percent of the responding firms expect their turnover to fall in the next six months, while only 21% expect turnover to increase.

Service firms are less pessimistic but they are still returning a negative net balance for expectations for turnover for the next six months at -2%. While 29% expect an increase, 31% expect a decrease. The overall net balance of -2% has fallen from the +4% of the previous quarter and the 0% of the same quarter one year ago.

Donald MacRae, chief economist, Lloyds TSB Scotland said: "This latest Business Monitor suggests the private sector of the Scottish economy showed marginal growth in the first eight months of the year. There is no definite sign of a lapse into a "double dip" but every indication of a protracted, slow and moderate recovery with the possibility of a fall in output in some quarters. In the face of slowing global demand, falling business and consumer confidence in the UK and cuts in government spending the Scottish economy is showing resilience. Prospects for more robust growth remain muted. A more vigorous recovery awaits an uplift in both consumer and business confidence."

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