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RECOVERY OF SCOTTISH ECONOMY DISRUPTED BY WINTER WEATHER

The Scottish economy's recovery from recession was severely disrupted by the adverse weather in December 2010, according to the latest Lloyds TSB Scotland Business Monitor.

For the three months ending February 2011, results showed that a quarter (25%) of firms reported an increase in turnover, 30% experienced static turnover while a just under a half (45%) experienced a decrease. This gave a net balance of -20%; a fall from the 0% of the previous quarter and a virtual repeat of the weather affected -22% of the same quarter last year. This is the most negative result in the last twelve months.

Both the production and service sectors were affected by the severe winter weather. The overall net balance for turnover for firms in the production sector was -15%; a significant worsening from the -1% of the previous quarter but an improvement on the -13% of the same quarter one year ago which was also affected by severe winter weather.

Service businesses were affected by the weather with an overall net balance of -22% this quarter. This is a significant fall from the +2% of the previous quarter and is worse than the -17% of the same quarter last year.

Firms' assessment of their business progress in the last quarter is universally negative, but their assessment of their immediate prospects in the next six months is radically different. Expectations for turnover in the next six months have risen across all the firm types in the survey to their highest level for three years. While 26% expect their turnover to decrease in the next six months and 42% expect a level position, 32% expect their turnover to increase in the next six months giving a net balance of +6%. This is a distinct improvement on the -5% of the previous quarter and is up on the +2% of the same quarter one year ago.

Expectations for turnover differ widely between sectors. Production firms are noticeably more optimistic with an overall net balance of +23% - the highest for the last three years. Forty percent of the responding production firms expect their turnover to increase in the next six months compared to less than half (17%) expecting a decrease.

The overall net balance on expectations for turnover for production firms at +23% contrasts sharply with the -2% of the previous quarter and the -6% of the same quarter one year ago. This is the largest upwards swing in the history of the Business Monitor.

Service firms are more pessimistic. Slightly more (31%) expect their turnover to decrease than increase (26%) with 43% expecting a static position. However, the overall -5% in the latest quarter represents a slight improvement on the -8% of the last quarter but is down on the +7% of the same quarter one year ago.

Donald MacRae, chief economist, Lloyds TSB Scotland said: "After five falls in seven quarters, the Scottish economy showed robust growth in quarter two last year of 1.3% followed by more trend like growth of 0.5% in quarter three. Given the effect of the severe weather of last December, growth in the last quarter of 2010 is expected to be around zero or even negative. Consumer confidence remains positive but at low levels. Consumer spending is constrained by this low level of confidence backed by increasing levels of retail price inflation eroding disposable income already constrained by low earnings growth. The Scottish economy is forecast to grow by 1.25% in 2011."

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For further information:

Zoe Redhead
Press Office
Lloyds Banking Group
Tel: 0131 243 7005

Donald MacRae
Chief Economist
Lloyds TSB Scotland
Tel: 0131 243 5447