

Bank of Scotland PMI[®]

BANK OF SCOTLAND

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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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December 11th 2017

Private sector activity growth eases to eight-month low

Key findings:

- Output growth softens to marginal pace
- Cost pressures remain elevated
- Business confidence picks up

Output in the Scottish private sector increased in November, albeit at the softest pace since March. Sector level data signalled a mild contraction in service sector activity, while manufacturing output expanded solidly. Weak activity growth coincided with a softer rise in new business. That said, businesses increased employment in line with a stronger degree of confidence regarding future output. Despite weaker demand growth, firms increased selling prices amid sharp input price inflation.

The seasonally adjusted headline Bank of Scotland PMI[®] - a single-figure measure of the month-on-month change in combined manufacturing and services output - declined in November to 50.2, from 52.7 in October. The pace of expansion signalled was marginal and the weakest since March. While production was increased solidly by manufacturing firms amid reports of greater new orders, business activity was slightly reduced by service providers.

In line with the trend for output, new orders placed with Scottish private sector firms increased at a weaker pace. Growth of new business was mild and eased to the slowest across the current 12-month expansionary sequence. Service sector companies indicated that incoming new orders were unchanged in November. On the other hand, manufacturing firms recorded higher demand following two successive contractions previously.

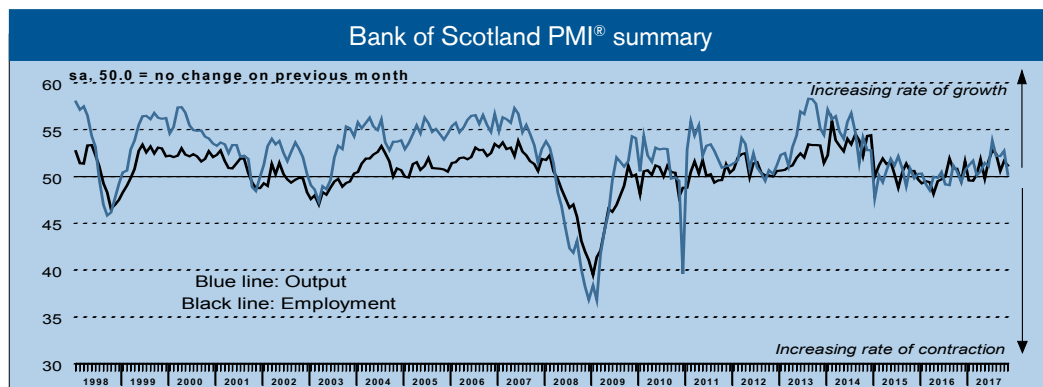
Businesses remained upbeat towards future growth prospects despite sluggish growth in output and demand. In fact, the degree of optimism edged higher across the private sector. Planned business expansions and new product launches were cited as reasons to be positive.

Amid greater business confidence, firms added to their payrolls for a sixth consecutive month in November. Moreover, sector data indicated that employment gains were broad-based. According to anecdotal evidence, additional staff were hired in preparation for greater order book volumes. That said, the rate of job creation across the Scottish private sector was modest and eased slightly.

In line with greater staffing levels, capacity pressures were alleviated in November. Backlogs of work across the Scottish private sector were depleted for a thirty-fifth month in succession and at a moderate pace.

On the price front, input prices continued to rise steeply, despite rates of inflation easing for both manufacturing and service sector businesses. Consequently, private sector input price inflation as a whole softened to the weakest since September 2016. Panellists generally associated greater operating expenses with higher labour and raw material costs.

As a result of receding cost pressures, selling prices were raised in November to the weakest extent seen in the current 16-month run of inflation.



		Composite index summary								
		Output	New Business	Backlogs of Work	Employment	Input Prices	Output Prices	Future		
		Scotland UK	Scotland UK	Scotland UK	Scotland UK	Scotland UK	Scotland UK	Scotland UK		
Sep'17	52.2 54.1	52.4	53.8	49.5	50.6	50.6	53.3	64.5 65.5	52.4 54.7	61.8 65.4
Oct	52.7 55.8	52.8	55.3	46.5	49.6	51.7	52.8	62.6 63.0	52.4 55.2	59.6 65.4
Nov	50.2 54.9	50.3	55.0	47.3	50.9	51.2	52.9	61.6 64.1	51.5 57.2	61.3 66.4

Manufacturing: Output and Future Output

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

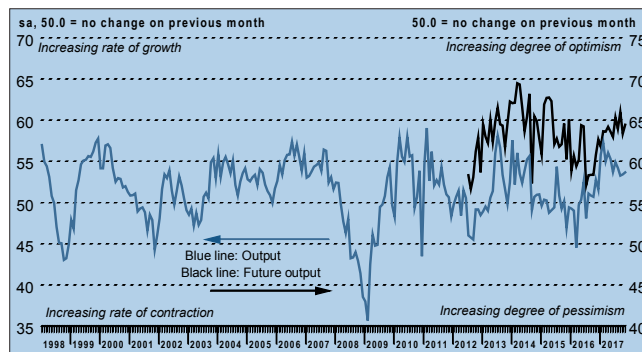
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	27.2	60.3	12.5	+14.7	57.4	53.7
	Jul	25.0	57.6	17.4	+7.6	53.8	54.9
	Aug	21.2	57.6	21.2	+0.0	50.0	54.2
	Sep	27.6	53.5	18.9	+8.7	54.3	53.3
	Oct	26.4	53.5	20.2	+6.2	53.1	53.4
	Nov	21.5	60.8	17.7	+3.8	51.9	53.7

November data signalled a solid expansion in Scottish manufacturing production. Moreover, the rate of growth accelerated for the second successive month to the fastest since August. Panellists suggested that output was raised in line with higher incoming new orders.

Scottish manufacturers remained optimistic regarding future output in November. Furthermore, the level of positive sentiment strengthened. According to anecdotal evidence, expectations of higher demand, new customer acquisitions and new product launches underpinned business confidence.

Q. In 12 months' time, do you expect the overall volume of output at your unit to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	37.0	51.9	11.1	+25.9	63.0	N/A
	Jul	37.7	55.4	6.9	+30.8	65.4	N/A
	Aug	37.2	53.5	9.3	+27.9	64.0	N/A
	Sep	41.6	48.8	9.6	+32.0	66.0	N/A
	Oct	36.2	54.3	9.4	+26.8	63.4	N/A
	Nov	38.3	52.3	9.4	+28.9	64.5	N/A



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.

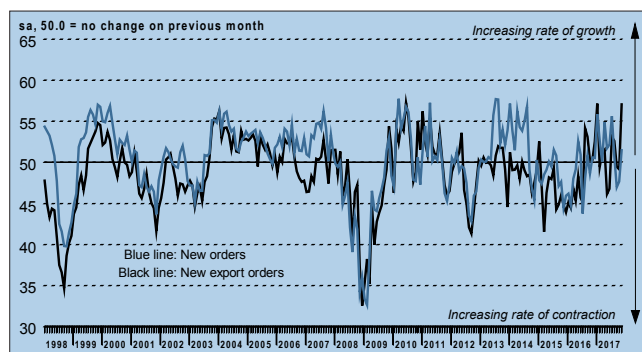
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	27.0	53.3	19.7	+7.3	53.6	52.2
	Jul	28.0	54.5	17.4	+10.6	55.3	55.7
	Aug	19.5	54.1	26.3	-6.8	46.6	50.7
	Sep	21.1	52.3	26.6	-5.5	47.3	47.0
	Oct	23.4	46.9	29.7	-6.3	46.9	47.7
	Nov	22.9	56.5	20.6	+2.3	51.1	51.5

Incoming new orders placed with Scottish manufacturing firms increased in November for the first time since August. Panellists indicated that the expansion in order book volumes was supported by new contract wins. That said, the rate of growth signalled was moderate.

Similarly, the seasonally adjusted New Export Orders Index returned to expansionary territory in November following two successive negative readings. In fact, new business from abroad increased at the most marked pace since January. Firms associated the upturn in overseas demand to the introduction of new products.

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
2017	Jun	13.2	69.2	17.6	-4.4	47.8	46.8
	Jul	24.4	57.0	18.6	+5.8	52.9	53.1
	Aug	19.3	61.4	19.3	+0.0	50.0	52.7
	Sep	19.5	59.8	20.7	-1.2	49.4	49.5
	Oct	19.3	56.6	24.1	-4.8	47.6	49.2
	Nov	21.7	71.1	7.2	+14.5	57.2	57.1



Manufacturing: Employment and Backlogs of Work

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).

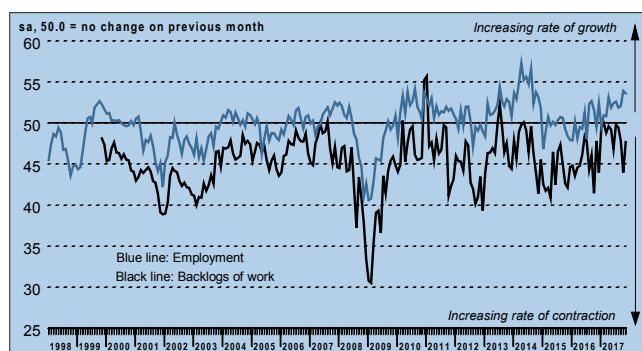
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	16.9	75.0	8.1	+8.8	54.4	52.5
	Jul	16.8	74.0	9.2	+7.6	53.8	52.6
	Aug	14.6	74.6	10.8	+3.8	51.9	51.9
	Sep	18.3	68.3	13.5	+4.8	52.4	52.1
	Oct	19.2	70.8	10.0	+9.2	54.6	53.9
	Nov	14.1	77.3	8.6	+5.5	52.7	53.6

Employment in the Scottish manufacturing sector expanded in November, thereby continuing a trend which has been observed since February. Although the rate of job creation softened slightly since October, it remained solid overall. Surveyed companies mentioned that additional staff were hired in line with greater production requirements.

Backlogs of work declined in November, as signalled by the seasonally adjusted index recording below the 50.0 no-change mark. Outstanding business has now been reduced for nine consecutive months. That said, the rate of depletion softened to a moderate pace.

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
2017	Jun	18.0	59.0	23.0	-4.9	47.5	46.8
	Jul	24.6	58.5	16.9	+7.6	53.8	49.8
	Aug	17.4	62.0	20.7	-3.3	48.3	49.5
	Sep	16.2	59.5	24.3	-8.1	45.9	47.8
	Oct	13.9	59.1	27.0	-13.0	43.5	44.0
	Nov	16.8	57.5	25.7	-8.8	45.6	47.7



Manufacturing: Stocks of Purchases and Stocks of Finished Goods

Q. Compare your stocks of purchased goods in units this month with the situation one month ago.

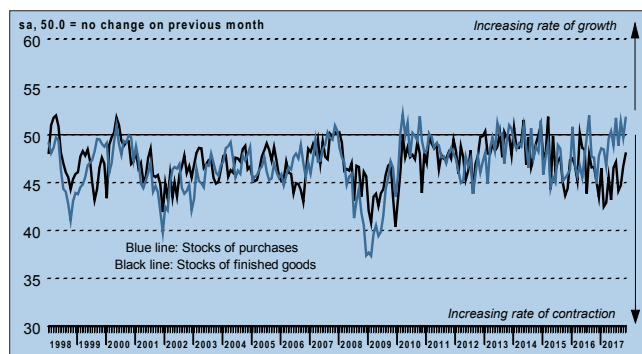
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	13.7	73.3	13.0	+0.8	50.4	48.9
	Jul	16.5	70.9	12.6	+3.9	52.0	51.8
	Aug	12.0	71.2	16.8	-4.8	47.6	48.8
	Sep	17.2	70.5	12.3	+4.9	52.5	51.4
	Oct	14.4	70.4	15.2	-0.8	49.6	49.7
	Nov	15.4	71.5	13.0	+2.4	51.2	51.8

The seasonally adjusted Stocks of Purchases Index recorded above the neutral 50.0 mark in November to signal a rise in pre-production inventories. Although the rate of accumulation was modest, it was the quickest seen since July.

Stocks of finished items held at Scottish manufacturing companies declined in November, extending the current contractionary sequence to 19 months. Some panel members opted to fulfil incoming new orders with inventories.

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
2017	Jun	15.4	72.6	12.0	+3.4	51.7	46.6
	Jul	11.1	74.1	14.8	-3.7	48.1	47.2
	Aug	7.4	74.1	18.5	-11.1	44.4	44.1
	Sep	10.4	71.7	17.9	-7.5	46.2	44.7
	Oct	9.9	72.1	18.0	-8.1	45.9	46.8
	Nov	13.6	68.2	18.2	-4.5	47.7	48.1



Manufacturing: Quantity of Purchases and Supplier Delivery Times.

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

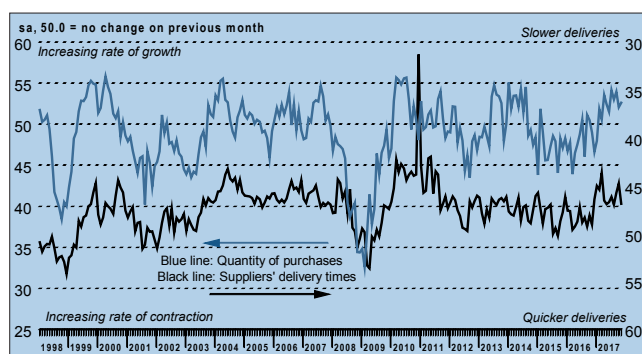
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	25.7	58.1	16.2	+9.6	54.8	51.5
	Jul	21.8	62.4	15.8	+6.0	53.0	54.2
	Aug	19.2	60.0	20.8	-1.5	49.2	53.0
	Sep	27.8	54.0	18.3	+9.5	54.8	54.0
	Oct	25.0	53.9	21.1	+3.9	52.0	52.1
	Nov	21.1	60.2	18.8	+2.3	51.2	52.7

Scottish manufacturers increased their purchasing activity in November. Input buying rose at a moderate but slightly faster rate. Survey respondents noted that buying levels were raised to cater for greater output requirements.

Supplier delivery times continued to lengthen in November, a trend which has been apparent since October 2015. That said, the degree to which vendor performance deteriorated was the joint-weakest since November 2016, on a par with May and August.

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

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	1.5	90.4	8.1	-6.6	46.7	46.7
	Jul	2.3	86.9	10.8	-8.5	45.8	46.2
	Aug	0.8	90.1	9.2	-8.4	45.8	46.9
	Sep	0.8	88.0	11.2	-10.4	44.8	45.7
	Oct	0.0	88.3	11.7	-11.7	44.1	44.8
	Nov	0.8	92.1	7.1	-6.3	46.9	46.9



Manufacturing: Input Prices and Output Prices

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

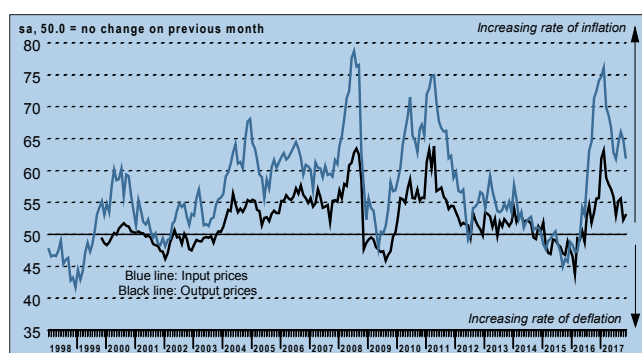
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	26.5	72.1	1.5	+25.0	62.5	62.9
	Jul	26.0	71.8	2.3	+23.7	61.8	61.8
	Aug	31.1	66.7	2.3	+28.8	64.4	64.4
	Sep	34.1	64.3	1.6	+32.5	66.3	66.1
	Oct	31.8	65.9	2.3	+29.5	64.7	64.9
	Nov	24.2	74.2	1.6	+22.7	61.3	62.1

Cost burdens faced by Scottish manufacturers rose for a nineteenth successive month in November. Input price inflation was sharp, despite easing to the slowest since July. Firms attributed higher production costs to raw material price hikes.

Consequently, Scottish manufacturing companies passed on higher input costs to customers through greater output charges. The rate of inflation was solid and quickened slightly. Selling prices have been raised for 17 months in succession.

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
2017	Jun	15.2	82.6	2.2	+13.0	56.5	55.9
	Jul	9.8	86.5	3.8	+6.0	53.0	53.0
	Aug	11.3	87.2	1.5	+9.8	54.9	55.3
	Sep	10.2	89.8	0.0	+10.2	55.1	55.7
	Oct	9.2	86.3	4.6	+4.6	52.3	52.3
	Nov	10.7	84.7	4.6	+6.1	53.1	53.1



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.

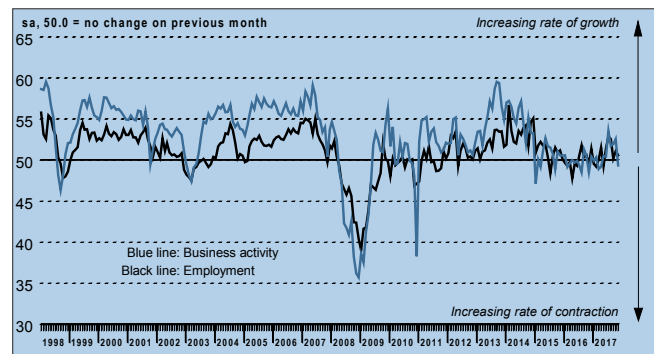
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	23.0	60.7	16.3	+6.7	53.3	50.5
	Jul	25.5	57.4	17.0	+8.5	54.3	53.6
	Aug	19.7	61.8	18.5	+1.2	50.6	51.7
	Sep	20.5	58.9	20.5	+0.0	50.0	51.9
	Oct	18.7	61.4	19.9	-1.2	49.4	52.6
	Nov	14.3	60.7	25.1	-10.8	44.6	49.4

After having increased for six successive months, business activity in the Scottish service sector declined in November. Panel members linked lower activity levels to a lack of incoming new business. However, the rate of contraction was only slight.

Scottish service providers increased employment in November. Payroll numbers have been expanded for six months in succession. That said, the rate of job creation was only slight and eased from the prior month.

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
2017	Jun	14.3	78.5	7.2	+7.2	53.6	51.5
	Jul	17.7	74.6	7.8	+9.9	55.0	52.9
	Aug	13.0	79.3	7.7	+5.3	52.6	52.6
	Sep	8.1	81.9	10.0	-1.8	49.1	50.2
	Oct	12.6	73.1	14.3	-1.7	49.2	51.1
	Nov	10.3	77.8	11.9	-1.6	49.2	50.6



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.

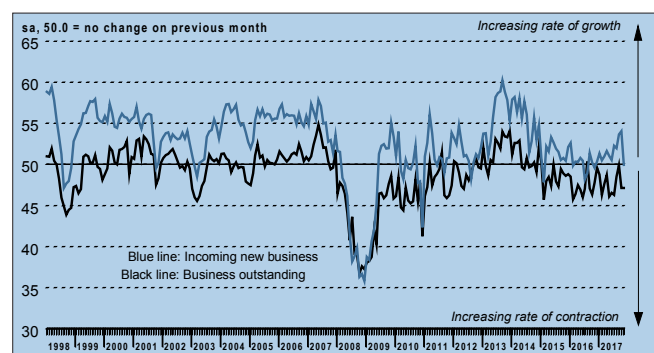
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	22.0	57.8	20.2	+1.8	50.9	50.6
	Jul	20.1	59.4	20.5	-0.4	49.8	52.3
	Aug	18.7	63.0	18.3	+0.4	50.2	52.0
	Sep	23.1	60.4	16.5	+6.6	53.3	53.7
	Oct	20.7	61.7	17.6	+3.1	51.5	54.1
	Nov	18.2	58.4	23.4	-5.1	47.4	50.0

Incoming new orders placed with Scottish service providers was unchanged in November, as signalled by the seasonally adjusted New Business Index scoring 50.0. While some firms indicated that new contracts had been won, others noted a lack of new business amid reports of uncertainty.

Latest survey data signalled a fifteenth consecutive month of lower backlogs of work. The rate at which outstanding business was reduced was moderate. Firms reported that unfinished work was reduced due to fewer incoming new orders.

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
2017	Jun	12.2	70.2	17.6	-5.4	47.3	46.6
	Jul	10.6	70.7	18.7	-8.1	46.0	46.3
	Aug	14.1	67.0	18.9	-4.9	47.6	48.5
	Sep	12.8	72.7	14.4	-1.6	49.2	49.9
	Oct	10.1	71.2	18.8	-8.7	45.7	47.2
	Nov	9.4	72.1	18.5	-9.1	45.5	47.2



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.

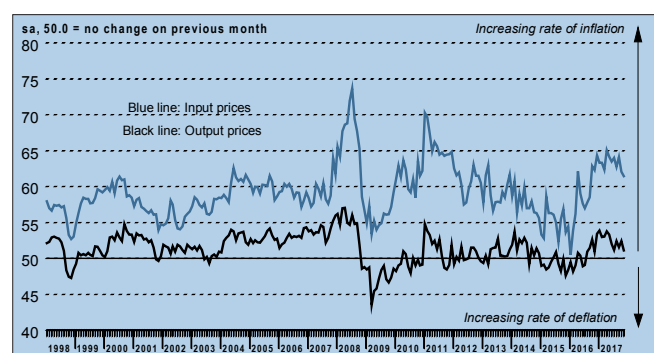
		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	29.5	68.8	1.7	+27.8	63.9	63.5
	Jul	29.5	69.7	0.9	+28.6	64.3	64.0
	Aug	24.3	74.1	1.6	+22.7	61.3	62.8
	Sep	27.5	71.6	0.9	+26.6	63.3	64.1
	Oct	26.3	71.7	2.1	+24.2	62.1	62.1
	Nov	23.0	75.9	1.1	+21.9	60.9	61.5

Cost pressures in the Scottish service sector remained elevated in November. Surveyed companies commonly attributed greater expenses to higher fuel and labour costs. However, input price inflation eased to a 14-month low.

In line with weaker input cost inflation, the extent to which average charges were raised softened. In fact, output price inflation slowed to a one-year low. Nonetheless, prices charged have now been increased for 16 consecutive months.

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
2017	Jun	10.5	85.7	3.8	+6.7	53.4	52.0
	Jul	6.8	89.3	3.8	+3.0	51.5	51.2
	Aug	10.1	85.5	4.4	+5.6	52.8	52.4
	Sep	8.6	84.2	7.2	+1.4	50.7	51.6
	Oct	8.3	85.8	5.8	+2.5	51.3	52.4
	Nov	7.9	82.5	9.5	-1.6	49.2	51.1

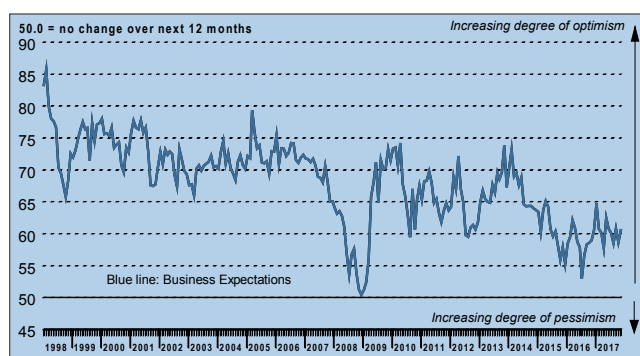


Services: Business Expectations

Q. In 12 months' time, do you expect the overall level of business activity at your unit to be higher, the same or lower than now?

		Higher %	Same %	Lower %	Net %	Index	S.Adj Index
2017	Jun	33.1	55.5	11.4	+21.6	60.8	N/A
	Jul	31.5	57.3	11.2	+20.3	60.1	N/A
	Aug	28.5	60.2	11.4	+17.1	58.5	N/A
	Sep	30.4	60.8	8.8	+21.7	60.8	N/A
	Oct	30.4	56.5	13.1	+17.3	58.6	N/A
	Nov	31.3	58.6	10.2	+21.1	60.6	N/A

Scottish service sector companies maintained an optimistic outlook regarding future activity in November. The degree of confidence increased, with 31% of panellists anticipating output growth, compared to 10% that are expecting a decline. Planned company expansions and new marketing campaigns were all cited as reasons to be positive.



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 40 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.

About 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.

Our goal is to be the best financial services provider in Scotland. We believe this means we must build a leadership position not on the basis of scale but on the foundations of reputation and recommendation.

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