

LLOYDS BANK



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LLOYDS BANK ENGLAND AND WALES REGIONAL PMI[®]: BUSINESS ACTIVITY RISES ON THE BACK OF STRONGER DEMAND FOR GOODS AND SERVICES

- Business activity growth rebounds at end of first quarter, buoyed by expanding order books
- Employment continues to rise, but at a slower rate than February
- Average prices charged for goods and services show biggest increase in nearly six years
- East of England sees strongest output growth ahead of the North West, while Wales PMI dips to its lowest reading for eight months

Business activity growth across England rebounded in March as a result of stronger demand for goods and services, according to the latest Lloyds Bank Regional Purchasing Managers' Index (PMI).

However, the survey also showed the biggest rise in average prices charged for goods and services in nearly six years as well as a slowdown in employment growth, both linked to strong cost pressures.

The Lloyds Bank Regional PMI is the leading economic health-check of regions across England and Wales, based on businesses in the manufacturing and service sectors. A reading greater than 50 signifies growth in business activity, while a reading below 50 signifies a contraction in business activity. The greater the divergence from the 50 mark, the faster the rate of change.

England's Business Activity PMI ticked up to 55.7 in March, improving from February's five-month low of 54.4 and indicating a strong and accelerated rise in output. However, the PMI for Wales dipped to 53.6, down from 56.4 and its lowest reading for eight months. In both cases, the average growth seen over the first quarter of 2017 was slightly lower than in the final quarter of 2016.

Regional business activity growth was led by the East of England (58.0), ahead of the North West (57.5) and Yorkshire & Humber (57.2). Last month's weakest performer, London, also rebounded in March, seeing its fastest rise in business activity for over a year (56.4). The North East (50.1) saw virtually no change in output and was at the bottom of the regional rankings (see overleaf).

Despite the pick-up in business activity growth and rising order books, March saw a slower rate of job creation across both England and Wales.

One factor acting as a break on hiring was sharply rising input costs as the rate of cost inflation remained among the highest seen over the past six years despite easing since February. This rise was linked to the weak sterling exchange rate, higher raw material prices, salary pressures and increased energy bills.

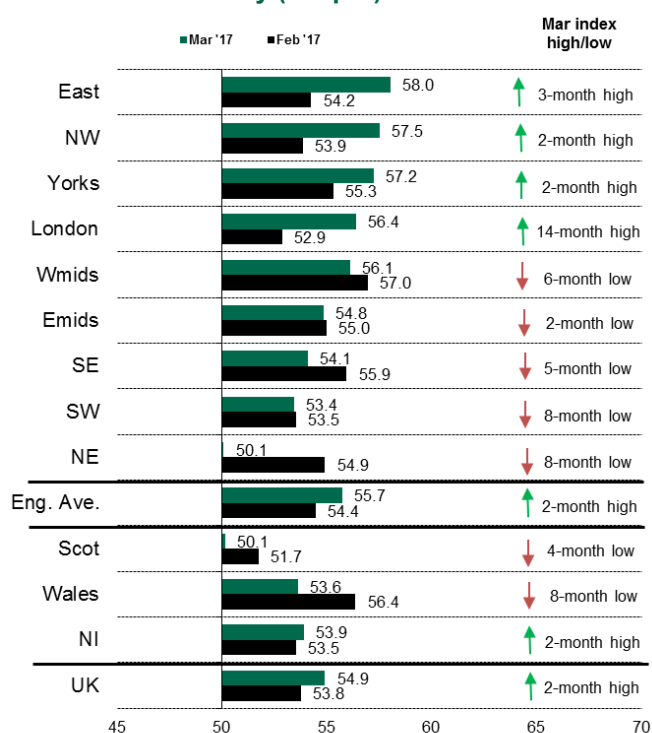
Tim Hinton, Managing Director and Head of Mid-Markets and SME Banking, Lloyds Banking Group said:

“March’s increase in business activity growth rounded off a solid opening quarter to 2017, although the pace of expansion did not reach the rate seen at the end of last year.

“Rising costs were again a key feature of the survey data, filtering through to higher prices charged for goods and services, while also reducing businesses’ appetite to hire new staff.”

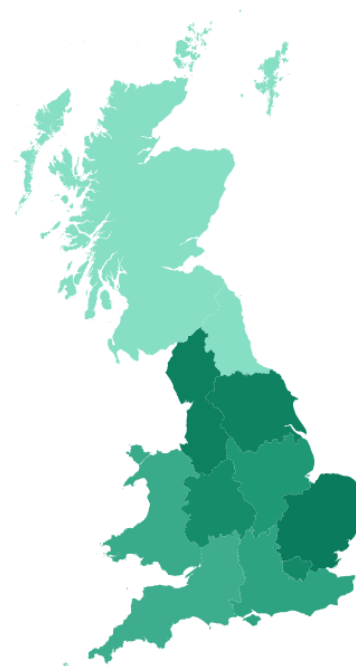
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PMI Business Activity (Output) Index

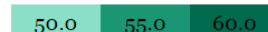


Numbers relate to monthly seasonally adjusted diffusion indexes. An index reading above 50 signals an increase on the previous month. A reading below 50 signals a decline. The greater the divergence from 50, the greater the rate of change indicated.

Heat map, March 2017



Business Activity Index



Compiled by Markit for Lloyds Bank Commercial Banking, this report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 1200 private manufacturing and services companies. The panel is carefully selected to accurately replicate the true structure of the private sector economy.

England’s Regional PMI® surveys are based on data compiled in March 2017. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the ‘Report’ shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the ‘diffusion’ index. This index is the sum of the positive responses plus a half of those responding ‘the same’. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease. The headline index for the English regions was first compiled in January 2001.

The Wales PMI[®] features original survey data collected in March 2017 from a representative panel of companies based in Wales and operating in both manufacturing and service sectors. The headline index for Wales was first compiled in January 2001.

The *Purchasing Managers' Index[®] (PMI[®])* survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

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Maintaining a network of relationship teams across the UK, as well as internationally, Lloyds Bank Commercial Banking delivers the mix of local understanding and global expertise necessary to provide long-term support and advice to its clients.

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Its heritage means it has an unrivalled understanding of business needs and a proven track record of supporting businesses across the sectors and regions. Taking a relationship approach, it provides support to its clients throughout the economic cycle.

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*If you would like to receive information on the Bank of Scotland monthly Scottish *Purchasing Managers' Index[®] (PMI[®])* please contact Mairi Gordon on 07825 377 384 or mairi.gordon@lloydsbanking.com.

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