T H E F R A S E R O F A L L A N D E R
I N S T I T U T E

Quarterly Economic Commentary

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C O N T E N T S

The Fraser of Allander Institute

The Fraser of Allander Institute was established in the University of Strathclyde on 1 January 1975. Its principal function is to carry out research on the Scottish Economy, and its research programme includes co-operation with the Scottish Council Research Institute and IBM (United Kingdom) Scientific Centre in the compilation of Input-Output Tables for Scotland, and the publication of a Quarterly Economic Commentary. It also publishes a series of Research Monographs to provide an outlet for original quantitative research on the Scottish Economy, and a series of occasional papers entitled Speculative Papers.

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Summary

World and United Kingdom

Prospects for the world economy have greatly improved in the last few months. The key to this recovery lies in the United States, which experienced rapid growth during the second half of 1975. Simultaneously, the rate of price inflation slowed to an annual rate of just under 8%, and the US secured a substantial balance of payments surplus.

An expected US growth rate of around 6%, and a healthy balance of payments position, should provide a marked stimulus to world trade and to output in the other developed countries, whose recovery has lagged behind the United States. Recent proposals to extend international credit to the developing countries, and continued growth in demand in the oil-producing countries, should also aid international recovery.

Partly as a result of the delay in attempts to combat inflation and to control the level of domestic demand, and partly as a result of more basic structural weaknesses, recovery in the United Kingdom is expected to lag behind most other countries. While output is expected to rise this year, the rate of recovery will be slow and will be insufficient to prevent further increases in unemployment, which can be expected to reach 1.5 million (seasonally adjusted) by the second half of the year. The slow rate of recovery, and the need to channel increased output into exports and investment, leave no room for increased consumption, and real disposable income must be expected to decline further in the first half of 1976.

Despite the gravity of the unemployment situation (which nevertheless has been less serious in the UK during the present recession than in most other developed countries), it is important that the Government resist pressure to inflate domestic demand by stimulating consumption expenditure or expenditure by public authorities. Such measures would not only revive inflation but would coincide in effect with the recovery in export and investment demand, thus diverting resources from these sectors and causing premature over-heating of the economy.

Scotland

Output and employment in Scotland continued to decline in the last quarter of 1975, and a further fall can be expected in the first quarter of this year. From about the second quarter, a slow recovery in output can be anticipated, though some industries will not recover until much later in the year, and the trend in unemployment will not level off before the end of 1976. Some stimulus to recovery should come from oil-related work, but we expect the revival in construction activity to be later than anticipated.

Although the present situation and the short-run outlook - inevitable consequences of general UK experience during the present cycle of recession - are gloomy, analysis of Scotland's relative performance in this recession provides some grounds for optimism. The Scotland/Great Britain unemployment relative continued to improve in the last quarter of 1975, and the unemployment/vacancies ratio in Scotland is lower than any other region in Britain except the South-East. There is therefore some evidence of a permanent improvement in Scotland's relative economic position which may augur well for future growth.

After allowing for approximately 12,000 students on the register, recorded unemployment of 150,000 this month was higher than we had anticipated, almost wholly the result of the unprecedently high number of school-leavers who registered in January. Allowing for these factors, we would expect total recorded unemployment to return to around 150,000 by March, and then to rise again through the second quarter, reaching about 161,000 (excluding students) by June. A further sharp rise may be expected in July.