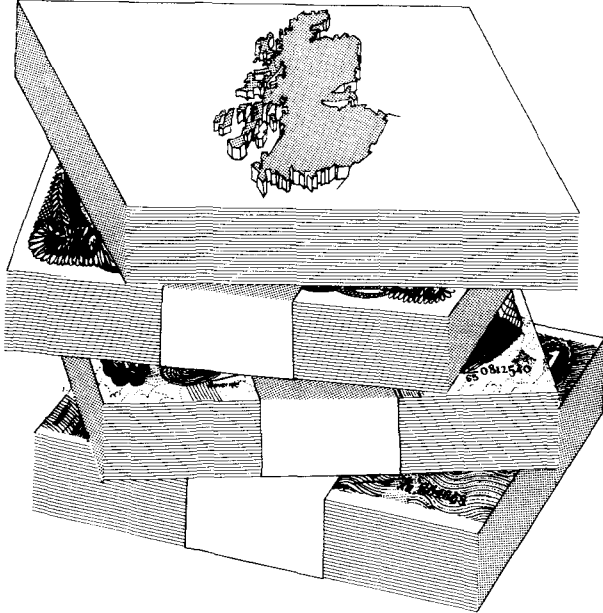


INDICATORS OF ECONOMIC ACTIVITY

The Scottish Economy

PRODUCTION

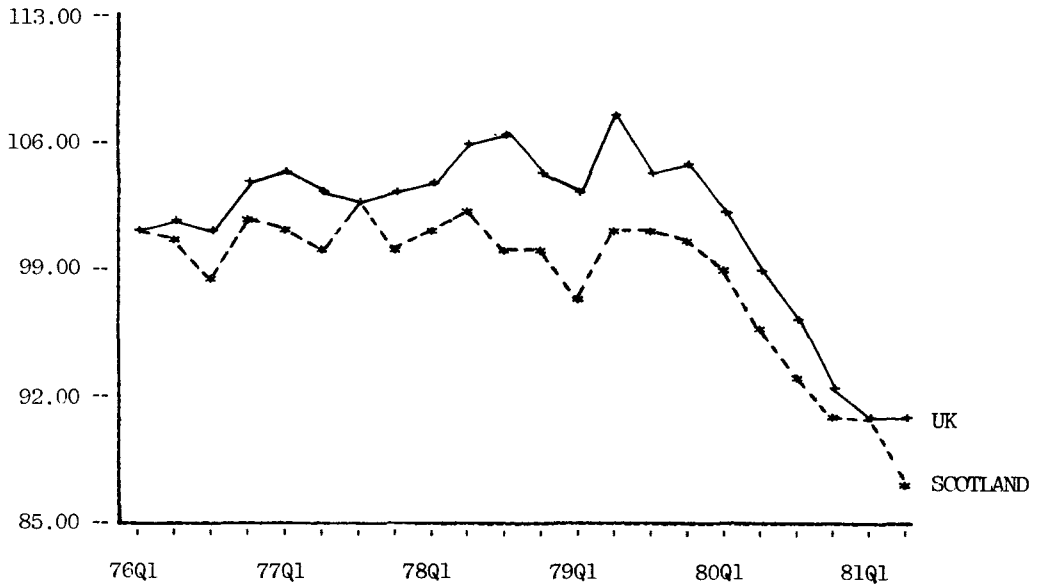


Since the last issue of this Commentary, index of production figures have been released for the first and second quarters of 1981. The index of industrial production (excluding MLH 104) for Scotland is estimated at 86.1, a decline of 3.8% from the level of the first quarter. Over the corresponding period output in the United Kingdom fell by less than 1% taking the index to 89.6. In Scotland all industries except textiles contributed to the decline in industrial output, whereas in the UK the decline in output was less marked and not so widespread. However comparing the latest four quarters with the preceding four, Scottish industrial production (excluding MLH 104) fell by one percent less than UK production. Figures available for the third quarter of 1981 for the UK show a slight increase in industrial production to 90.9, suggesting that the bottom of the output recession has been reached and that a slow recovery is underway. The equivalent Scottish figures for this quarter are not yet

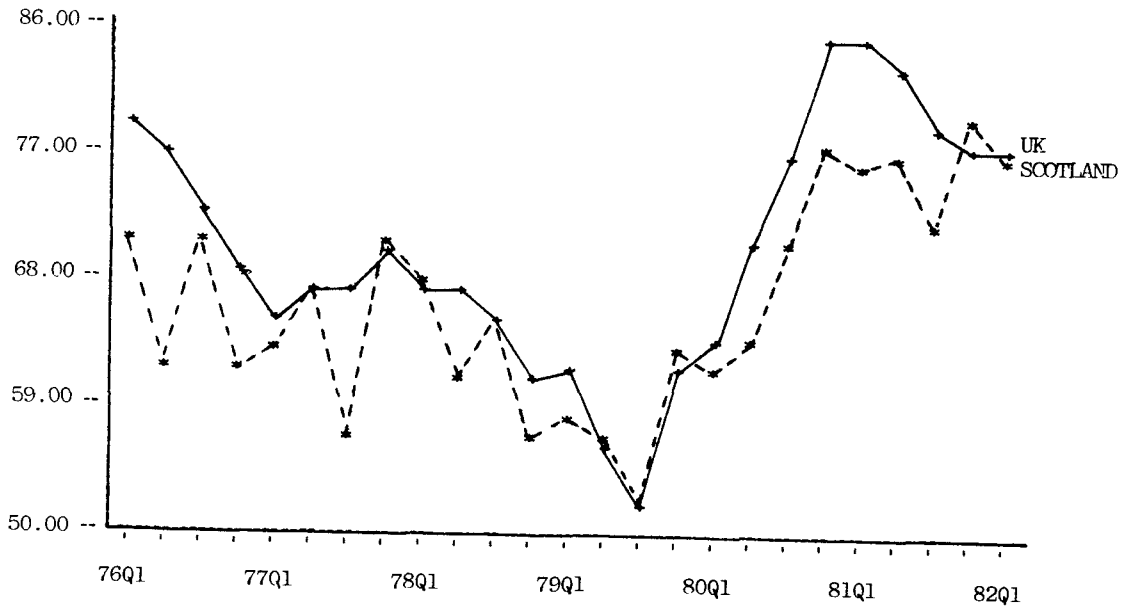
available. However it is usual that Scottish output reflects the trend experienced in the UK.

The January issue of the CBI Industrial Trends Survey indicates no sign of recovery in the Scottish economy. The survey reports that although business confidence remains weak, any further decline in optimism is slight. In Scotland 69% of firms were neither more nor less optimistic about the general business situation in their industry compared with four months ago. Capital expenditure plans are still depressed despite an improvement in investment intentions since the last survey. A net 28% of firms (41% in October) expect to authorise less expenditure on buildings over the next twelve months than in the previous twelve. However the main reasons listed for any capital expenditure authorisation were increased efficiency or replacement rather than to expand capacity. In January 76% of respondents reported their current levels of output to be below capacity which is a slight improvement on the 79% reported in October. This may reflect the output results over the past four months when a positive balance of 2% of firms reported increased activity levels. However a net 11% of firms expect output volumes to fall over the first quarter of 1982, with 93% quoting the lack of orders or sales as the main factor. This bleak outlook is reflected in domestic order books being below normal for the majority of respondents.

INDEX OF INDUSTRIAL PRODUCTION, ALL INDUSTRIES.



EXCESS CAPACITY: CBI SURVEY



Unlike the UK as a whole, the export market appears to be declining for Scottish firms. Lack of optimism is widespread and present export order books are below normal for 74% of firms. A net 43% of exporters report that the volume of new orders received for export has been lower over the past few months and a net 33% expect lower volumes. Of the factors most likely to limit firms' ability to obtain export orders over the next four months, prices remain the most widely listed. With a balance of 27% of exporters indicating that the average prices at which export orders are booked will increase over the next four months it is likely that the export situation will continue to worsen. As far as employment is concerned, the survey reports that although more firms intend to reduce their labour force rather than increase it, an easing in the rate of labour shedding is apparent.

COMPANY FORMATIONS AND DISSOLUTIONS

In the last four months of 1981 (September to December inclusive) there were 1,149 incorporations and 718 dissolutions. The fourth quarter saw a much higher rate of formations as compared with the third quarter (943 in Q4, 700 in Q3) whereas dissolutions were slightly down (479 in Q4, 489 in Q3).

BANK ADVANCES

Sterling advances to the UK public and private sectors stood at £4,414m as at 9 December 1981. Because of changes to the conventional reporting procedure comparisons with the previous year have been dropped for the time being.

The revision has been adopted in order to comply with the Bank of England's alteration to the statistical definition of the banking sector. This sector, which has been renamed the monetary sector, now includes all recognised banks and licensed deposit-taking institutions.

The Scottish Clearing Banks' monthly statement no longer includes a sectoral breakdown of bank advances and their flows over time.

CONSTRUCTION

The amount of new orders received in the third quarter of 1981 stood at £243m exactly the same as in the previous quarter. The corresponding quarter of 1980 reported new orders of £249m.

The public sector continued its steady increase in new orders placed, rising from £105.93m in the first quarter to £126.32 in the third quarter. The main reason for this being the recovery in new housing orders (over the second quarter) and increases in spending on schools and colleges, health, offices etc and roads and harbours.

Private sector new orders fell back from £244.82m in the second quarter to £116.8m in quarter three. There were large falls in private sector housing and office orders. However, orders placed by the industrial sector continued to improve; in the third quarter the value of new orders was £54.5m, which compares favourably with the first two quarters when the figures were £18.22m and £34.23 respectively.

Compared with 1980 the total number of new orders received by contractors for the first three quarters was down from £703.34m to £695.29m - a significant drop in real terms.

INDUSTRIAL PERFORMANCE

AGRICULTURE

The EEC Commission's proposals for 1982 offer a 9% increase in agricultural prices, the largest rise in several years but well below the 16.3% minimum demanded by farming pressure groups. A proposed reduction in Britain's MCA would result in Scottish farmers receiving less than the full increase. Features of the 1982 package include the proposal of penalties to discourage the growth of dairy herds and a move to align EEC and world cereal prices, because the present discrepancies require costly export subsidies to dispose of surplus grain. Farmers' representatives in Scotland feel that the proposed increase in prices will not be sufficient to restore their incomes to a reasonable level.

The beef market in Scotland remains buoyant with the average price at the end of 1981 staying well above the target price. The current state of the market is due to the reduced levels of slaughtering in 1981, and this is expected to continue in 1982, with forecasts suggesting a further reduction as a consequence of the trend toward a lower herd size.

Market prices at the end of 1981 were also rising in the sheepmeat market, and the rate of variable premium payable fell considerably between September and November from 47.8 pence to 5.2 pence. Increased marketings in Scotland were counterbalanced by an overall decline in the UK, and the export market for sheepmeat was favourable. Supplies in the UK, France and New Zealand are expected to increase in the first half of 1982 and will halt the rise in prices.

Milk production in October and November of 1981 was higher than the 1980 results for all of Scotland's marketing areas. October production figures in the North of Scotland were 5.8% higher; in the Aberdeen and District area output was 5% higher, and in the SMMB area production was up by 6.8%.

FISHING

Total landings by UK vessels in the first nine months of 1981 were 313,422 tonnes, valued at £9.25m. This represents an increase of 18% in the volume of the catch over the same period of 1980, but an increase in value of only 9%.

Landings of haddock in the first nine months of 1981 were 60,383 tonnes, 21.6% up on the same period of 1980, while the average value per tonne has fallen from £405 to £383 in the same period. Landings of whiting in the first nine months of 1981 were 18.9% lower than the comparable figure for 1980, while the average value per tonne has declined marginally. The herring catch in Scotland fluctuates in line with legal requirements. Up to May, the average amount landed each month was around 19 tonnes; however in August the catch was 7,997 tonnes, falling to 930.3 tonnes in September, following the closure of the newly revived herring fisheries in the Minch.

Concern over the state of Scotland's herring fisheries continues. The Minch fisheries have been shut down until next summer, and the North Sea fisheries are experiencing very slow rates of recovery from depletion, despite their protection under law since 1977. Recovery in the southern North Sea has been sufficient to allow a limited fishery, but the central and northern areas are well below the acceptable level for re-opening the fisheries.

OIL AND GAS

UK production of crude oil in the third quarter of 1981 was 21.9m tonnes, 11.7% higher than in the equivalent period of 1980. Continuing decline for oil products, however, led to a 33% drop in refinery receipts of indigenous crude between these two quarters. The main effect of this surplus of indigenous supply over domestic demand has been on the UK's net foreign trade balance in crude oil: in the third quarter of 1980 the UK imported a net 889,000 tonnes of crude; in the equivalent 1981 quarter net exports of crude amounted to 6,197,000 tonnes.

The world-wide surplus of oil continues to exert a downward pressure on prices: in December OPEC agreed a new price structure which will mean cuts of 20c - 70c per barrel on certain crudes. The cartel's base price of \$34 per barrel for heavy crude is frozen until the end of 1982, but already the spot price for this type of oil is \$3 below this.

In spite of these problems in the market place, exploration and development activities in the North Sea have been at a high level. In fact, the 109 wells drilled in the UK Continental Shelf (mostly in the North Sea) during 1981 was the highest number drilled since 1977.

The success ratio is, however, now much lower than in the early days of exploration: only six out of fifty-four exploration wells drilled in the UK sector in 1981 yielded 'significant' oil or gas discoveries. Partly because of this, new areas are being considered for possible exploration. Offshore, some drilling has already taken place west of Shetland and further activity in this area can be expected. A new development is the granting of onshore licences for preliminary seismic surveys in a number of areas of the UK including parts of Strathclyde, Lothian, Central and Tayside regions.

On the gas front, activities have been relatively quiet as companies re-appraise their plans following the abandonment of the gas-gathering pipeline scheme last September. There is also a general 'wait and see' attitude over the outcome of the Oil and Gas (Enterprise) Bill which, by stripping British Gas of its monopoly buying powers, could significantly affect the gas market. In addition to de-monopolising gas demand, the bill intends that British Gas should sell its stakes in offshore and onshore fields to private buyers. These assets might realise over £500m in the market. The bill also proposes that BNOC should be split into two separate entities. BNOC's oil trading activities will be kept 100% state-controlled, allowing the corporation to continue to handle royalty oil deliveries and state participation crude. On the other hand BNOC's exploration and production interests will be transferred to a new company, Britoil, 51% of whose assets will be sold to the private sector. It is estimated that the sale of these assets could raise £900m.

FOOD DRINK AND TOBACCO



Output in the food, drink and tobacco sector fell by 1% in the first quarter of 1981, and fell a further 5% in the second quarter, to an index level of 95. Output in the first half of 1981 is 5% lower than in the same period of 1980. In the four quarter period to mid-1981, production in Scotland was 5% lower than it had been in the previous four quarters, while the output of the UK

sector fell by 2%. 64% of respondents to the January CBI Industrial Trends Survey are operating at a level of output below capacity. A lack of orders or sales is quoted by 96% of the respondents as the main factor restricting output over the next four months.

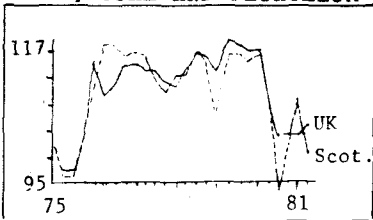
WHISKY

The most recent figures show total industry production of whisky of 40,762 thousand litres of pure alcohol for the third quarter of 1981. In the third quarter of 1980 the equivalent figure was 73,523. Most of Scotland's distilleries are working below capacity, at levels ranging from 12-80%, and this has necessitated short-time working and extended holiday shutdowns in the industry. Although there is some hope that export performance will improve this year, as destocking bottoms out, this will not be of immediate benefit to distilleries, and it is certain they will continue to operate below capacity for some time.

The industry aims to improve its long term prospects by expansion in relatively new markets, such as Southern Europe, Latin America and Africa, as well as in the traditional markets of Japan, USA, and France. Over the past 25 years, the industry has enjoyed growth rates in consumption of around 9% per annum, but in recent times the growth rate has fallen, and has actually become negative in the USA market. It is currently estimated that the potential growth in world demand is in the region of 3-4% per annum.

As part of a plan to ease tariffs on 1,500 imports, Japan will cut import duty on whisky by an average 10.4% from April, assuming the legislation is passed. The new tariff on top quality whisky imports to Japan will be 220%. However, the impact of the tariff reduction on the price of whisky in Japan will be slight and is not expected to have a marked effect on sales.

CHEMICALS, COAL AND PETROLEUM

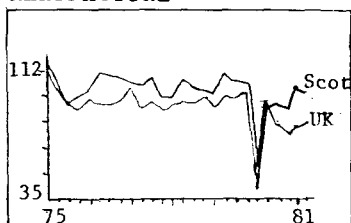


Production in the first quarter of 1981 rose by 8.9%, but fell back in the second quarter to its previous index level of 101. The performance of the UK sector was relatively better, with output constant in the first quarter of 1981 and rising by 2% in the second quarter. In both the Scottish and UK sectors, output has fallen in comparison with 1980

levels, with the reduction in Scotland, of 6.4% being more severe than the 2.7% fall experienced by the UK. The January CBI Industrial Trends Survey suggests that the general business situation in this industry is static, with only 2% of firms more optimistic and 4% less optimistic. However, despite this 58% of the firms surveyed expect to shed labour over the next four months while only 4% have indicated that they will increase the numbers employed.

BP is considering an investment of £25m to convert an ethylene chemicals plant at Grangemouth to use ethane gas from the North Sea instead of naphtha as its raw material. However, this seems to depend on the company gaining tax concessions on the ethane gas, which would otherwise be subject to the 70% petroleum revenue tax, rendering the conversion uneconomic. As the industry throughout Western Europe is suffering from over-capacity, the Grangemouth plant is likely to face further difficulties unless competitiveness can be improved.

METAL MANUFACTURE



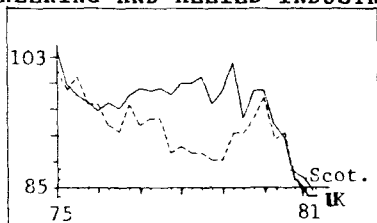
Metal output in Scotland continued to recover during the first half of 1981 from the drop in production early in 1980 caused by the strike. The January CBI Industrial Trends Survey encouragingly shows that 39% of respondents are more optimistic about the business situation with none less pessimistic. Similarly 44% are more optimistic about export

orders and none less pessimistic. Despite this 87% of respondents indicated that they are operating below capacity and 97% stated that lack of orders are likely to limit output over the next four months.

British Steel reported a reduction in losses for the half year to October from £279m in 1980 to £196m in 1981. Despite this, a cutback of a further 500 employees in strip works in Scotland is being sought by the Corporation by the end of the year. However, after recording high output levels at Ravenscraig at the end of 1981, the severe weather over the New Year period and the closure of the American market to European companies will make the achievement of the current target, in Scotland and in the UK as a whole, considerably more difficult.

The closure of the British Aluminium smelter, at Invergordon, with the direct loss of 890 jobs, took place in December. The price of electricity paid by the smelter is considered to be of crucial significance when assessing the viability of the project. Some interest in the site has been expressed by international aluminium companies and there is now a possibility that the smelter might be re-opened.

ENGINEERING AND ALLIED INDUSTRIES



The index of production for engineering and allied industries fell by 3% during the second quarter of 1981 to its lowest recorded level. This is largely accounted for by electrical engineering, which in the more recent past has provided the only growth in the sector, reporting a 5% fall in production. Mechanical engineering also experienced a

4% decline. The January CBI Industrial Trends survey indicates that 56% of firms surveyed are less optimistic about their export prospects and 97% indicate that their present level of output is below capacity. Practically all firms state that both their domestic and export orders are below normal.

It is indicative of the state of manufacturing in Scotland that the restructuring of the Hoover plant at Cambuslang involving cutting back 350 jobs should be regarded as a minor victory. It was feared that the plant might be closed.

During the second half of 1981 there was further evidence of the recession in the electronics industry. Plessey at Bathgate is to close in March with the loss of 330 jobs. However, on a more encouraging note, the Burr Brown Research Corporation is to set up in Livingston later this year. This is of particular significance to the future structure of the electronics industry in Scotland as the company is involved in high technology research rather than in basic semi-conductor assembly. Beckman Instruments at Glenrothes are to expand production and add 100 employees to their workforce.

SHIPBUILDING AND VEHICLES

World shipbuilding appears to be recovering slowly from its lengthy depression. The British Shipbuilders chairman expects trading losses for the year to be less than £25m and to be breaking even by 1983/84. This contrasts with the deficit of £110m two years ago.

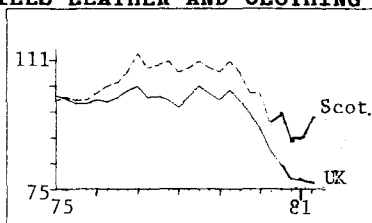
Further orders have been added to those obtained by Scottish yards last summer and for the first time for some years the workforce is to be increased at Govan, Robb Caledon, Leith and Hall Russell yards. Govan have won orders worth £125m over the last six months and are adding 250 to their workforce. The latest £30m order for two bulk carriers for Norway is for the new B45 design. Scott Lithgow are to build an £80m deepwater drilling rig for BNOG and the occupation of the Robb Caledon yard in Dundee has ended. The yard has been taken over by Kestrel Marine with a £4m contract to produce mini modules for BP. The design for the new type 23 frigate has been prepared at Yarrow. Ideally a production run of 4-6 ships for the Royal Navy would add considerably to its export potential.

As expected British Leyland's rationalisation plans for their Albion and Bathgate plants involve extensive redundancies. Employment at Bathgate is to be cut by 1,300 jobs to 2,400. Tractor production is to cease and the plant will assemble two trucks - the Landmaster and Landtrain - rather than the six models currently being produced. At present there is considerable opposition to the transfer of the tractor division to Lincolnshire and the future of the reduced Bathgate operation could be at risk. While Bathgate is to remain the primary truck engine manufacturer in British Leyland, the Albion works will continue to be the sole source for truck axles. Job losses of 140 at Albion were also announced. The ZF project to produce gear boxes in Glasgow has been dropped and the company will now import directly from Germany.

Due to further falls in demand Caterpillar Tractor at Uddingston are cutting back a further 300 jobs and introducing a four day week. 630 have already taken early retirement and voluntary redundancies since October.

Recession in the aircraft industry is also hitting Scotland. Lockheed are to phase out their Tri Star aircraft which utilises Rolls Royce RB211 engines. The impact of this decision will not be felt until 1984, although due to other factors, the workforce at Hillington is to be cut by a further 480 over the next few months.

TEXTILES LEATHER AND CLOTHING



Production in the first half of 1981 rose by 5.6% over that of the last quarter of 1980, and the output level in the second quarter of 1981 was at the same point as in the corresponding period of 1980. However, output in the four quarters to mid-1981 was 9% lower than that of the preceding four quarters, a relatively better performance than the 17% reduction experienced by the UK sector. Only 15% of respondents to the CBI Industrial Trends Survey are more optimistic about the general business situation. In volume terms 62% see their present order book as below normal. Of the firms surveyed only 3% expect to increase their labour force over the next four months while 20% expect to shed labour. The main factor restricting output is lack of orders, a response made by 98% of firms.

The Stoddart carpets group are to make 300 workers redundant, the majority at Dalkeith in Midlothian, and the remainder at Glasgow. The carpet industry has fared badly in the recession in Scotland, as the problems at BMK's Kilmarnock factory in November demonstrates. A Border's textiles company, Bernat Klein Design, has been forced to close, with redundancies of 250, following the reduced demand for its high quality fabrics. It is feared that other companies in the Borders may have to re-introduce short-time working because of difficult trading conditions.

Coats Paton intend shedding 1,000 jobs at their Paisley thread mills, over a period of 2-3 years. This follows a job loss of 300 at Paisley in August 1981, but it is hoped that much of the reduction this time can be achieved through natural wastage. The company's rationalisation plan is designed to secure the continuance of its thread-making operation in the future.

BRICKS, POTTERY, GLASS AND CEMENT

Output increased in the first quarter of 1981 by 12.3%, but fell by 19% in the second quarter. Production has fallen more severely in Scotland than in the UK, where output in the first half of 1981 fell by 5%. Comparing production in the four quarters to mid-1981 with the previous four quarters, the Scottish sector declined by 18% and the UK sector declined by 16%.

PAPER, PRINTING AND PUBLISHING

Production in Scotland fell by 1% between the fourth quarter of 1980 and the first quarter of 1981, and remained unchanged in the second quarter. The UK performance was similar, where output was constant in the second quarter. Output in the second quarter in Scotland was 5.8% down on the same period of 1980, while the UK's performance is relatively better, with output down 3.8% in the same period.

The adverse conditions facing the publishing industry have been highlighted by the announcement of impending redundancies at George Outram & Co, and at Holmes McDougall. Outram's losses in 1981 were largely due to reduced levels of advertising, while Holmes McDougall have suffered a decline in demand for their whisky labels, and a stagnant market in the educational publishing field as a result of government cutbacks.

EMPLOYMENT AND UNEMPLOYMENT

The employment data in Table 1 record the inexorable decline in jobs in Scotland and England and Wales in the year to September 1981 (the latest date for which figures are available).

**TABLE 1 EMPLOYEES IN EMPLOYMENT IN SCOTLAND
AND IN ENGLAND AND WALES (000's)**

SCOTLAND	TOTAL	MALES	FEMALES	FEMALE/ MALE RATIO	SCOTTISH EMPLOYMENT AS A % OF GB EMPLOYMENT
Sept 1980	2,013	1,154	858	.74	9.27
Dec 1980	1,977	1,132	845	.75	9.26
Mar 1981	1,926	1,103	823	.75	9.24
June 1981	1,927	1,097	830	.76	9.30
Sept 1981	1,909	1,085	824	.76	9.26

ENGLAND AND WALES

Sept 1980	19,713	11,524	8,190	.71
Dec 1980	19,366	11,267	8,099	.72
Mar 1981	18,922	11,023	7,899	.72
June 1981	18,802	10,912	7,890	.72
Sept 1981	18,698	10,859	7,839	.72

Source: Department of Employment Gazette

In Scotland total employment fell by 104,000 or 5.2% between September 1980 and September 1981, an almost identical rate of decline to that experienced in England and Wales (5.1%) over the same period. The fall in male employment (69,000 or 6.0% was proportionally greater than in female employment (34,000 or 4%), thus maintaining the consistent upwards trend in the ratio of females to males in employment, which is now 76%. A similar employment experience is noted in England and Wales, where the ratio of female to male employment now stands at 72%.

The ratio of employment in Scotland to employment in Great Britain fell slightly in the quarter to September 1981, from 9.30% in June to 9.26% in September. In general however the rate of job losses in the current recession has been remarkably similar in the two areas.

The brunt of the job losses in the period under review continued to be borne by manufacturing industry - just under 52% of job losses in Scotland, and nearly 56% of job losses in England and Wales in the year to September 1981. One in four workers in Scotland are now employed in manufacturing, an historical low. While this decline in the share of manufacturing in total

employment is common to most developed countries - and mirrors the earlier historical experience of agriculture - the services sector, which has previously absorbed surplus labour from manufacturing, is also currently shedding jobs.

TABLE 2 EMPLOYMENT BY SECTOR IN SCOTLAND AND IN ENGLAND AND WALES, SEPTEMBER 1981

SCOTLAND

	NO EMPLOYED SEPT 1981 (000'S)	% OF TOTAL	CHANGE IN NO EMPLOYED	
			JUNE 1981 - SEPT 1981 (000'S)	SEPT 1980 - SEPT 1981 -
Agriculture, Forestry & Fishing	44	2.3	- 1	- 4
Manufacturing	479	25.1	- 10	- 54
Construction, Mining & Utilities	205	10.7	- 3	- 21
Services	1,180	61.8	- 5	- 26
TOTAL	1,909	100.0	- 18	- 104

ENGLAND & WALES

Agriculture, Forestry & Fishing	327	1.7	+ 20	- 7
Manufacturing	5,393	28.8	- 44	- 567
Construction, Mining & Utilities	1,541	8.2	- 17	- 133
Services	11,438	61.2	- 62	- 308
TOTAL	18,698	100.0	-104	-1,015

Source: Department of Employment Gazette

Note: Constituent items may not add to totals due to rounding.

Table 3 below records total and seasonally adjusted unemployment (excluding school leavers) in each quarter between January 1981 and January 1982. While the figures are scarcely encouraging, the decline in the rate of growth in unemployment noted in the previous Commentary continues, and is consistent with the view that unemployment will probably flatten out in the second half of this year, about a year to a year and a half after the apparent nadir in output.

TABLE 3 UNEMPLOYMENT IN SCOTLAND

	TOTAL UNEMPLOYED	SCHOOL LEAVERS	SEASONALLY ADJUSTED UNEMPLOYED	SEASONALLY ADJUSTED UNEMPLOYMENT RATE	SCOTTISH UNEMPLOYMENT AS A % OF BRITISH UNEMPLOYMENT
January 1981	286,602	20,123	252,500	11.2	11.8
April 1981	287,668	14,237	270,800	12.0	11.5
July 1981	318,215	29,985	289,200	12.8	11.6
October 1981	325,446	22,943	302,200	13.4	11.5
January 1982	346,547	24,642	307,900	13.6	11.3

Source: Department of Employment

The current rate of unemployment in Scotland stands 18% above the average for Great Britain and ranks fifth highest amongst the ten standard planning regions, a ranking unchanged since last summer. Paradoxically however Scotland maintains a relatively favourable ranking in terms of the ratio

TABLE 4 REGIONAL UNEMPLOYMENT AND VACANCIES, JANUARY 1982

REGION	UNEMPLOYMENT ¹ RATE (%)		UNEMPLOYMENT/ VACANCIES ^{1,2} RATIO	
	1982 JAN.	1981 OCT.	1982 JAN.	1981 OCT.
South-East	8.5	8.3	15.2	17.2
East Anglia	9.7	9.1	14.2	19.3
South-West	10.2	10.0	17.5	20.9
West Midlands	14.3	13.8	48.9	49.3
East Midlands	10.4	10.1	25.7	31.1
Yorks & Humber	12.2	11.9	34.3	39.0
North-West	14.1	13.8	40.0	44.6
North	14.9	14.7	40.5	42.3
Wales	14.9	14.4	29.5	31.9
Scotland	13.6	13.4	21.2	23.4
Great Britain	11.5	11.1	24.0	26.9

¹ Seasonally adjusted, excluding school leavers

² Seasonally adjusted, excluding vacancies notified to careers office.

Source: Department of Employment Gazette

of unemployment to vacancies (see Table 4). Only the South East, East Anglia and the South West have lower unemployment/vacancies ratios, and the Scottish figure is 12% below the average for Britain. This ratio has fallen in all regions in the quarter from October 1981 (and in most regions has fallen continuously since June 1981), though the improvement is strictly relative - there are still on average twenty-four unemployed to every notified vacancy. Thus even if half the unemployed were "voluntarily" unemployed, and there were three additional vacancies for every one notified, a simultaneous filling of all vacancies would still leave over one million "involuntary" unemployed and maintain registered total unemployment at more than 2.5 million. Making a similar hypothetical calculation for Scotland, "involuntary" unemployment would still be almost 100,000 and total registered unemployment around quarter of a million. As an indication of the severity of present conditions, the unemployment/vacancies ratios for Scotland and the UK in March 1980 were 10.0 and 7.7 respectively, against the present figures of 21.2 and 24.8.

Table 5 provides some verification of the beginnings of a recovery in output in the latter half of 1981. For the first time in two years, the total number of operatives on short-time working showed a downwards trend. The number of operatives on overtime working continued to decline in the quarter to September, but the absolute decrease was small and suggests at least a levelling off in the second half of the year.

TABLE 5 SHORT-TIME AND OVERTIME WORKING IN SCOTLAND

4-QUARTER MOVING AVERAGE ENDING	NO OF OPERATIVES ON SHORT-TIME WORKING	NO OF OPERATIVES ON OVERTIME (000'S)
December 1979	6.9	156.5
March 1980	8.6	149.8
June 1980	11.9	140.2
September 1980	16.0	138.2
December 1980	21.3	122.7
March 1981	26.5	112.3
June 1981	28.3	105.3
September 1981	24.7	102.9

Source: Department of Employment

While it is possible to predict a levelling out in employment and unemployment this year, there are no indications as yet of any buoyancy in labour demand. The unemployment/vacancies ratio and the volume of short-time working are at historically high levels and the volume of overtime working at an historically low level. These indicators can be interpreted to suggest that there is considerable scope for an expansion of output with the current employed labour force. On this interpretation, growth in output could continue for some time before effecting any reduction in unemployment.

REGIONAL REVIEW

UNEMPLOYMENT AND VACANCIES

The latest figures for January 1982 indicate that unemployment continues to rise across all the regions of Scotland. The worst hit areas are the Western Isles, Strathclyde, Dumfries and Galloway and Central with respective unemployment rates of 24.0%, 17.9%, 15.1% and 15%. These figures however conceal the effect that the recession is having on more localised areas. Although official figures are not available it can be estimated that certain areas are now in the ignominious position of having one in three of the labour force without work. With the closure of the aluminium smelter plant at Invergordon and possible further redundancies at Bathgate, there are good reasons to believe that in some areas the unemployment situation will continue to deteriorate over the next year. Despite action currently being taken by many local authorities to stimulate local economic development, in particular by encouraging the formation and expansion of small firms, success in terms of job creation can only realistically be expected in the long-term. Small firms alone cannot, and should not, be expected to ameliorate the unemployment that now exists in all the regions of Scotland, whether industrial or rural.

The severity of the problem facing the regions of Scotland is emphasised in Table 2 where the regional ratios of unemployment to vacancies are recorded. This shows that over the past year the ratios of unemployment to vacancies have increased across all the Scottish regions, with the exception of Fife and Orkney, although in the last quarter there has been a slight improvement in the Scottish ratio (see Employment and Unemployment section). The regions suffering the greatest increase over the year in the unemployment to vacancies ratios are Borders, Lothian and the Highlands. The highest actual ratios are recorded in Orkney, Tayside and Dumfries and Galloway. The position in Tayside for example implies that for every job that is currently vacant there are 46 potential applicants. Clearly however, this is an oversimplification, since there is bound to be a degree of structural unemployment ie a mismatch between the skills of those unemployed and the type of jobs that are being offered, which can only be alleviated by a programme of retraining.

REGIONAL DEVELOPMENT GRANTS

The level of Regional Development Grants (more than £25,000) rose to £25.3m in the third quarter of 1981. A rise of £10.2m over the previous quarter and 20% of the total UK payments. The areas receiving the bulk of these grants are Grangemouth, Saltcoats, Irvine, Motherwell, Greenock and Fort William, all areas which are suffering particularly badly from high unemployment. Regional development grants (RDGs), the main strand of current regional policy, act as subsidies on capital expenditure which go towards new plant, machinery, building and works on premises which are used wholly or mainly for manufacturing activities. At present regional development grants are paid on 22% of capital expenditure in Special Development areas and 15% in Development areas. It is questionable however whether these grants actually create many jobs especially in the case of highly capital intensive activities such as those at Grangemouth. Moreover where nationalised industries are concerned RDGs only transfer public money from one branch of government to another, with no real increase in actual expenditure.

TABLE 1 UNEMPLOYMENT, UNEMPLOYMENT RATE AND VACANCIES NOTIFIED BY SCOTTISH REGIONS, JANUARY 1982

	TOTAL UNEMPLOYMENT	UNEMPLOYMENT RATE %	VACANCIES
Borders	3,671 (3,058)	9.4 (7.8)	148 (181)
Central	17,762 (16,618)	15.0 (14.0)	527 (715)
Dumfries			
Galloway	8,404 (7,514)	15.1 (13.5)	244 (405)
Fife	19,456 (17,845)	14.2 (13.1)	608 (670)
Grampian	16,923 (14,743)	9.1 (7.9)	1,286 (1,955)
Highland	11,479 (9,360)	14.5 (11.8)	529 (632)
Lothian	43,555 (40,893)	12.7 (11.9)	1,600 (2,443)
Strathclyde	197,028 (188,882)	17.9 (17.1)	5,868 (5,808)
Tayside	24,865 (23,823)	14.4 (13.8)	541 (504)
Western Isles	1,987 (1,674)	24.0 (20.2)	57 (98)
Orkney	761 (632)	12.4 (10.3)	16 (24)
Shetland	656 (404)	7.4 (4.6)	112 (94)
SCOTLAND	346,547 (325,446)	15.3 (14.4)	11,536 (13,565)

Figures for October 1981 are in brackets. Unemployment totals and rates include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Offices and the Employment Services Division. Since double-counting occurs vacancy figures have to be viewed as slight over-estimates in most regions.

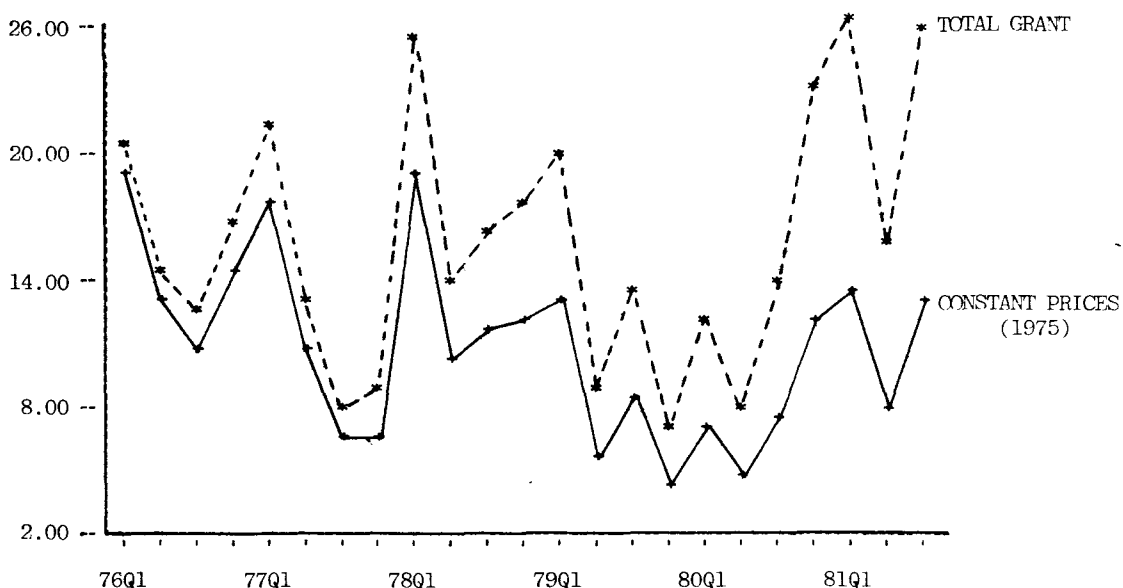
Source: Department of Employment

TABLE 2 REGIONAL UNEMPLOYMENT TO VACANCY RATIOS, JANUARY 1981 AND 1982

	JANUARY 1981	JANUARY 1982
Borders	13.3	24.8
Central	29.5	33.7
Dumfries & Galloway	29.0	34.4
Fife	32.3	32.0
Grampian	8.8	13.2
Highland	14.3	21.7
Lothian	18.4	27.2
Strathclyde	33.4	33.6
Tayside	40.8	46.0
Western Isles	31.2	34.9
Orkney	53.2	47.6
Shetland	4.2	5.9
SCOTLAND	25.9	30.0

Out of a UK total of £43.5m, Scotland was allocated £12.5m from the European Regional Development Fund in the final round of awards for 1981. As usual the largest part of these grants went to local authorities. In particular Strathclyde Regional Council received £1.9m to realign the Glasgow to Bishopbriggs road, Lothian region £1.2m to extend the sewerage system in the western part of the East Lothian district and Highland region £0.2m to help in providing main sewers, pumping stations and treatment works for the Inverness main drainage scheme. The main industrial grant of £1m went straight to the Government as partial reimbursement of financial aid promised to MEL, the Phillips Group defence contractors, for the relocation of their manufacturing facilities in Fife.

REGIONAL DEVELOPMENT GRANTS (£ million)



HOUSING CAPITAL EXPENDITURE ALLOCATIONS

The Scottish Development Department has recently announced a final allocation of £375.48m to Scottish local authorities for housing capital expenditure in 1982/83. This represents a 21.5% increase over the 1981/82 allocation and partially compensates for the very low 3.8% increase between 1980/81 and 1981/82. The housing allocation is divided between two blocks. By far the largest is the Housing Revenue Account (HRA) which is intended for new building, modernisation and improvement work on council housing, and will receive £297m. The Non-HRA block provides for improvement grants, home loans and other assistance to the private sector and has been allocated £79.48m. Within either block each local authority is free to choose how these funds are distributed depending on their own policies and priorities. In addition they may transfer up to 10% of either block allocation to the other. Table 3 below summarises the allocation of housing capital expenditure at Regional authority level.

TABLE 3 HOUSING CAPITAL EXPENDITURE ALLOCATIONS BY REGION (1982/83)

REGION	HRA BLOCK			NON-HRA BLOCK		
	£m 1982/83	(1981/82)	% CHANGE	£m 1982/83	(1981/82)	% CHANGE
Border	5.195	(4.88)	+ 6.5	1.44	(1.575)	- 8.6
Central	12.86	(10.105)	+27.3	1.8	(2.115)	-14.9
Dumfries & Galloway	9.835	(9.5)	+ 3.5	1.21	(1.36)	-11.0
Fife	16.055	(14.915)	+ 7.6	4.05	(3.00)	+35.0
Grampian	31.275	(25.665)	+21.9	6.17	(5.165)	+19.5
Highland	16.11	(13.63)	+18.2	3.335	(3.12)	+ 7.5
Lothian	27.36	(21.635)	+26.5	16.325	(14.07)	+16.0
Strathclyde	141.87	(113.23)	+25.3	33.08	(33.23)	- 0.5
Tayside	14.58	(11.315)	+28.9	7.55	(5.09)	+48.3
Island Areas	6.86	(7.23)	- 5.1	4.5	(3.3)	+36.4
Reserve (unallocated)	15.0					
TOTAL	297.0	(232.105)	+28.0	79.48	(72.025)	+10.4

Source: Scottish Development Department

The lion's share of the improved allocation for 1982/83 has gone to the HRA Block and should help some local authorities to re-establish their council house programmes after the severe restrictions over the recent past. Only the HRA allocation for the Island Area authorities has experienced a fall in money terms. Some other authorities, although they are to receive a larger allocation than in the previous period will find that it is insufficient to cover inflation. This means that housing programmes in Borders, Dumfries and Galloway and Fife will be curtailed.

The Non-HRA block has only increased by 10.4% in money terms for Scotland as a whole. A few Regional authorities have had their allocation reduced from 1981/82 levels, however Fife, Tayside and the Island Areas are to receive significantly higher allocations.

The Housing Capital Expenditure allocations recorded in Table 3 have been calculated after discussions between the Scottish Development Department and the local authorities bearing in mind the estimated incomes which each authority expects to raise from its housing assets. If however a local authority actually generates a higher income than anticipated then they are entitled to increase their capital expenditure by that amount.

OUTLOOK AND APPRAISAL

The immediate economic prospects remain unfavourable particularly with regard to the level of unemployment. In the UK the number unemployed in January 1982 stands at a record 3,071,000. While the Scottish figure does not yet equal the figure of 407,000 recorded in January 1933, the present total of 346,547 represents a post-war high. Coupled with these figures is the rapid growth in the long-term unemployed ie those unemployed for more than a year. An examination of recent statistics from the Department of Employment shows that in the United Kingdom between October 1980 and October 1981, this category increased in number from 401 thousand to 785 thousand, an increase of nearly 96%. In addition the Manpower Services Commission has recently lent its weight to the view that the true level of unemployment is around four million. Even on very optimistic assumptions about the nature of unemployment and prospects for the labour market (see Employment and Unemployment Section), it is unlikely that unemployment will fall to historically acceptable levels.

While there have recently been marginal increases in the level of industrial production, it is unlikely that the rate of growth will accelerate in the immediate future, nor is this likely to prevent further increases in the level of unemployment. An examination of the January 1982 CBI Industrial Trends Survey supports both of these conclusions. In both Scotland and the UK, 93% of respondents indicated that a lack of demand would limit output over the next four months. With regard to employment in Scotland 29% of firms stated that they would shed labour, while only 7% expected to increase their labour force. Estimates made using this Institute's short-term forecasting model suggest that the number unemployed will rise to 366,000 by the end of 1982. Given these gloomy prognostications what can be expected from the forthcoming budget.

It is extremely unlikely that the Chancellor will deviate from his chosen course, despite calls from both sides of industry for a significant reflationary stimulus. However, even within the self-imposed constraints of the Medium Term Financial Strategy there appears to be limited room for manoeuvre (see UK Section). Indexation of personal tax allowances, a cut in indirect taxes or a reduction/abolition of the National Insurance Surcharge are the most likely options. While the eventual choice is as likely to rest on political criteria, on economic grounds the abolition of the National Insurance Surcharge should be the favoured option. This would help reduce the price of labour and remove an unnecessary cost facing hard-pressed employers. If the Chancellor feels that complete abolition is too expensive, then he should concentrate any changes on the manufacturing sector which has borne the brunt of the recession in terms of output and employment. Nevertheless, whichever option is chosen, the short-term impact on the economy will be slight.

While the government remain convinced about the long-term efficacy of their strategy, there have recently been a number of issues which taken together beg a number of questions about the longer-term prospects for the Scottish economy. The Special Article presents the first results of the Institute's Medium Term Model of the Scottish economy and concludes that by 1984 the economy will do well to restore output to 1979 levels, while it is unlikely that the level of employment will recover. Whether or not this position will provide a basis for further, more significant growth remains to be seen. However, if the government is proved correct and there is a significant recovery in the UK economy, will the regional economies of the

UK display the buoyancy of the South of England and rise equally on this tide of prosperity? Or will their relative position once again worsen as historical evidence suggests?

Regional policy is currently in an impasse. The recent Monopolies Commission Report on the Royal Bank of Scotland pointed to the dangers to the Scottish economy of centralisation, a view endorsed by the government. Contemporaneously, the Invergordon smelter was the latest in a line of factories, implanted through regional policies, to close. The paradox is clear: on the one hand market forces push the economy towards increased but undesirable centralisation, while conventional regional policy has led to heavily subsidised investments which are unable to compete internationally. Clearly a major rethink is necessary on regional policy and on the longer-term options and prospects for the Scottish economy. However, as yet, there is little evidence to suggest that this is happening, although the forthcoming by-election at Glasgow Hillhead may well concentrate a few minds.

QUARTERLY ECONOMIC FORECASTS

Scottish unemployment now stands at 346,000. In the July 1981 Commentary, we forecast that the level of unemployment in Scotland would be 340,000 in the first quarter of 1981. Given that dramatic increases in the number of unemployed are unlikely during February or March, our previous forecast looks to have been only slightly overoptimistic. With manufacturing output likely to increase to some 94% of its 1975 value by the third quarter, there will be some levelling off in the rate of increase in unemployment. Nevertheless, many employers still feel that it is necessary to reduce their level of manning and improve productivity. Thus it seems likely that by October 1982, the level of unemployment will be around 362,000. Our full forecasts for the remainder of 1982 and first quarter of 1983 are set out in the table below.

	1982				1983
	1	2	3	4	1
Manufacturing Output UK (1975 = 100)	91	92	95	95	96
Manufacturing Output Scotland (1975 = 100)	90	92	94	94	95
Manufacturing Employment Scotland (000's)	480	475	469	470	468
Unemployment - Scotland (000's)	346	352	362	366	371