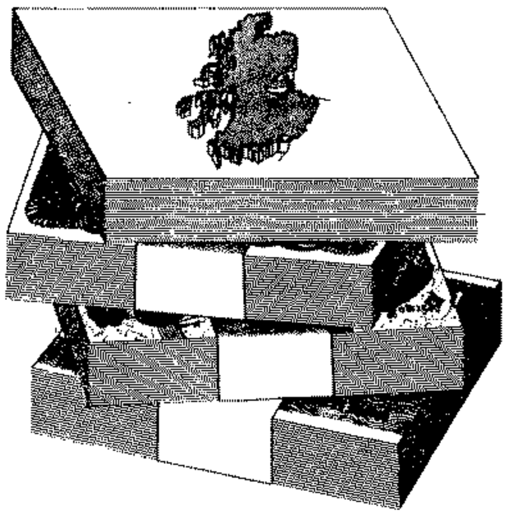
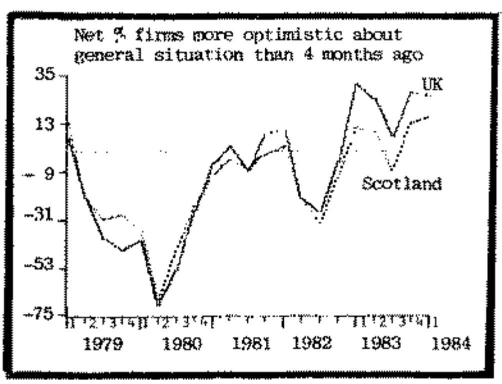
The Scottish Economy

Industrial Performance



Headings in this section have been revised to correspond with the 1980 Standard Industrial Classification (SIC).

All graphs in this section refer to the Index of Industrial Production, unless otherwise indicated.

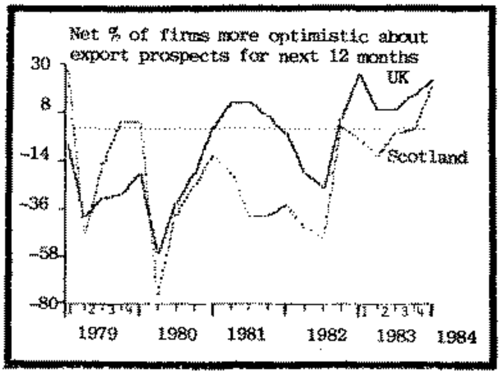


BUSINESS SURVEYS

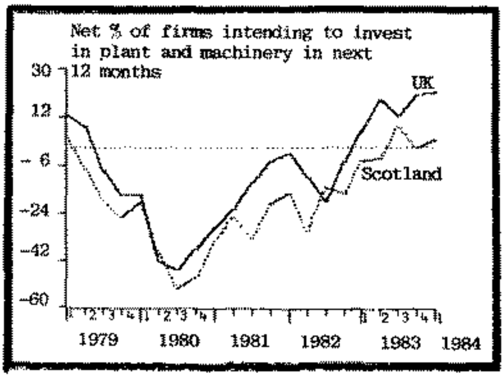
The April CBI Industrial Trends Survey in Scotland suggests both that the optimism expressed in January about the general business situation was justified and that recent increases in orders and output are likely to continue. A positive balance of 10% of respondents expect an increase in orders over the coming four months and a balance of +19% expect increases in output. A noticeable feature of these figures is that optimism about exports has considerably strengthened over the previous quarter. Scottish export and output trends now more nearly mirror those in the United Kingdom as a whole. Medium-sized firms (200-499 employees) remain generally more optimistic than either their smaller or larger counterparts. Large firms are the least sanquine about their general business situation though even here a positive balance of 10% are more optimistic than they were four months ago.

The slow but steady improvement in plant and machinery investment intentions is being sustained, albeit at a slower pace than in the British economy as a whole. A balance of +3% of Scottish respondents expect to authorise more capital expenditure on plant and machinery in the coming twelve months than in the previous twelve. The pace of investment in plant and machinery may be expected to quicken further in the coming quarters of this year and into 1985 as investments are brought forward in advance of the phasing out of capital allowances. While a negative balance of 17% of respondents expect to authorise less expenditure on buildings in the coming twelve months, this figure is less pessimistic than those reported over the previous year.

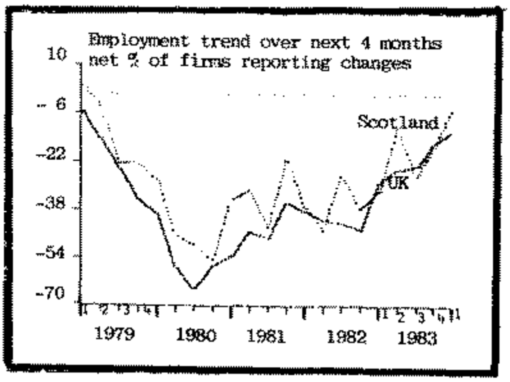
Stocks of raw materials, work in progress and finished goods all show a marked upward trend over the past four months. Restocking, however, appears unlikely to continue. Only for stocks of work in progress is there a positive balance (+7%) of respondents expecting an increase in the volume held. Predictions that the stock-output ratio in manufacturing is unlikely to regain pre-recession levels would appear to find some support in recent surveys.



On the employment front, the Survey suggests that matters are improving with Scottish respondents taking a more favourable view of the demand for labour than British respondents as a whole. A balance of 8% of Scottish respondents reported a decrease in numbers employed over the past four months. On balance, further reductions in employment are anticipated over the next four months. Though respondents reporting increased employment continue to be outnumbered by those reporting reductions, the proportion in the former category now amounts to one in five, compared to less than one in twelve in the April 1983 Survey. These figures represent a significant improvement on the previous three years. If present output trends continue, an overall positive balance of respondents reporting increased employment could occur late this year.



The sectoral composition of the overall picture painted by the Survey remains much the same as in previous quarters. The Textiles sector continues to exhibit sustained signs of recovery. A positive balance of 35% of respondents in that sector reported an increase in the volume of output over the past four months and an even larger positive balance of 44% expect output to expand in the quarter to August. Textiles is one of the few sectors where restocking appears likely to continue and it is the only sector where a positive balance of respondents (+26%) report upward trends in employment in both the previous and coming quarters.



There are now some signs that capital goods industries are beginning to benefit from the recovery. In the Mechanical and other Engineering sectors, a large positive balance (+23%) report increases in output over the past four months, though only +2% expect to increase output further next quarter. There are also positive balances reporting an expected increase in both domestic and export orders so that output may be expected to grow more rapidly toward the end of the year. At UK level, employment is forecast to increase in some capital good industries such as industrial machinery, machine tools and instrument engineering.

Signs of increased activity are not quite so apparent in the intermediate goods sectors. Metals and Metal Manufacturing producers are slightly more optimistic about their general business situation but this would appear to be due more to a recovery in export rather than in domestic markets. Since stocks still appear to be high in metals, increases in export or domestic orders are likely to only partly feed through to output.

The responses to the Glasgow Chamber of Commerce Survey for the quarter ending March reinforce the impression given by the CBI survey. Export sales and orders both show large positive balances of respondents expecting increases, and domestic sales and orders continue to exhibit strong signs of recovery. The Chamber of Commerce survey paints a slightly more optimistic picture than the CBI survey in respect of investment and employment intentions. The underlying trend for both is upwards, but the large positive balances which underlie the trend reported by the former suggest that the CBI and Chamber of Commerce samples are not strictly comparable.

In summary, there is evidence to suggest that the recovery of output in the Scottish economy is becoming more broadly based. Exports are now providing a much needed stimulus to demand and capital goods industries are beginning to benefit from the upturn in investment in plant and machinery. The short-term outlook for capital goods industries is made all the better by the prospect of firms bringing forward their investment plans to take advantage of the phasing out of capital allowances. While the abolition of capital allowances should in the medium term also provide a boost to employment, over the longer term an effective increase in the cost of capital is a poor augury for a Scottish economy relatively specialised in the production of investment goods.

AGRICULTURE

According to preliminary official estimates, the net income of farmers in Scotland fell from £140.6 million in 1982 to £100.2 million in 1983. The effect of the EEC farm price review announced in April will be to bring about a further significant fall in Scottish farm incomes in 1984. It will mean lower returns across the whole range of major commodity groups in Scottish agriculture, (see Economic Perspective).

Scotland's 3,000 dairy farmers are likely to be the hardest hit. They face a new quota which, on average, will be based on their volume of 1983 deliveries less 9%. Price changes already implemented this year together with foreseeable cost inflation suggests further cuts of around 10% in dairy farm incomes. Finally, it has been estimated that the exemption from milk production restrictions, negotiated for Ireland in Brussels, will cost Scottish producers a further £8 per cow.

On beef, the intervention price is to be reduced by 1%. There is to be a reduction of 20% in the maximum level of the variable beef premium, and the whole scheme is to be ended after one more year. However, the British government has announced a doubling of the suckler cow premium which is worth about £5m to beef rearers in Scotland.

On sheep, the final stage in bringing the UK reference price into line with the EEC basic price has been agreed. While there has been a small reduction in the annual ewe premium, an advanced payment of 30% in less favoured areas will benefit Scottish producers, as will the British government's decision to increase the wool guarantee price, which had remained static for the past four years.

On pig meat the basic price will be inreased by 1% on 1 November. There are as yet undefined proposals for a special subsidy on skim milk powder for intensive rearing. It has been estimated that pig producers, along with poultry producers, had a net income in the year to April 1984 about 75% below the real level which they enjoyed in 1977/78.

There is growing recognition that the quotas on milk production are merely a forerunner of more stringent restrictions on the production of other farm commodities. This is becauses of the enormous costs of the Common Agriculture Policy. Throughout Europe the tide of public opinion is running against the farming industry. An indication of the distortions which have been created by the Common Agricultural Policy is contained in the official estimate of grants and subsidies paid in 1983 to UK farmers by Whitehall and Brussels. The figure is £1.4bn, which is only £100m less than the official estimate of total UK farm income in that year, £1.5bn.

The Common Agriculture Policy rests on two principles. The first is self-sufficiency within Europe for major commodities, and the second is that this self-sufficiency should be realised by means of a price support system. This system has an inbuilt bias towards excess supply of commodities and has meant that the non-agricultural European is doubly burdened: (a) he has to pay the higher EEC price for his food instead of the much lower world market price; (b) he is supporting low-cost large-scale producers unnecessarily. There is in addition the additional burden of the administrative costs and waste created by the system.

If the Common Agricultural Policy is to be reformed, rather than to break up in confusion, then it should be done according to the following principles:

1. A gradual lowering of intervention prices to world market levels.

2. Subsidies paid through a deficiency payment rather than a price support system.

3. A redundancy scheme to encourage high cost producers to leave the industry.

Whatever happens, one thing seems certain: official support for Scottish farm incomes will continue to fall over the next few years. A large part of the blame for this must attach to the unpopularity caused by the CAP throughout Europe. The members of the National Farmers Union of Scotland who ten years ago officially supported the government's decision to abandon their own deficiency payments scheme in favour of the Common Agricultural Policy, will in the coming years have plenty of time to regret this decision.

FISHING

Since the last Commentary, no further data have been made available on fish landings in Scotland.

The licensing system for fishing boats, part of the CFP, is now underway. Vessels over 10 metres in length, fishing for most of the main species, must be in possession of a government licence. Existing vessels have been so endowed, but no further licences will be issued in the foreseeable future. The consequence of this is that no net addition to the number of vessels in commercial operation in the UK as a whole can take place, and gains at some ports must be made at the expense of others in the country. This has given rise to considerable concern in coastal communities, made worse by the fact that once a vessel has been scrapped or withdrawn from commercial fishing, the licence attached to that vessel will also expire. EEC funds have been made available to encourage owners to scrap ageing boats, but there is now an alternative incentive to sell these vessels, demand for them being based on the accompanying licence. The licensing system has obvious implications for the boatbuilding industry, and has led some boatyards to enter the market for second-hand vessels carrying licences which can be transferred to new vessels. The fishing industry is hoping for an early review of the licensing system, so that its differential impact on prosperous and poor fishing communities can be assessed.

The pier at Mallaig is to be extended, at an estimated cost of £1.8m. The government will provide a grant covering

90% of the cost, and the project may also attract funds from the European Regional Development Fund. A breakwater of about £100m will be constructed to provide sheltered berthing for an additional 27-48 vessels depending on size.

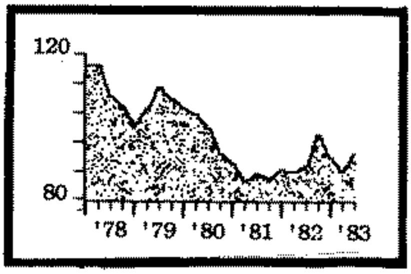
Fishing Employment - Ghost Crews?

Some confusion arises from enquiry into the number of people whose livelihood depends on fishing in Scotland. Recourse to the 1981 Census of Employment reveals that the number of Scottish employees in fishing - that is, the commercial catching sector - was 2,100. Given that the number of vessels in operation in Scotland in the same year was 2,370, this figure seems miraculous. It is reassuring to find that in the Scottish Abstract of Statistics, figures quoted from DAFS put the numbers employed in fishing at 8,461 in 1981.

The reconciliation of these two sets of data is achieved by noting the definitions adopted by the different bodies. The Department of Employment obtain their information from census forms completed by employers. For the purpose of these forms employees are defined as those who are PAYE participants, while individuals paying their own stamp are classed as self-employed. The numbers reported as employees consist of the former group only, but because of the extensive operation of the share system in Scotland, "employees" as such are in the minority. Under the share system, there are multiple partners in fishing boats. Partners earnings are neither fixed nor guaranteed but dependent on the size of the catch. The DAFS statistics, on the other hand do take account of the latter group, as they record the numbers actually working on vessels. The Department's data are aggregated from annual returns made by the nineteen fishery district officers, and included in their figures are persons regularly and partially employed, and crofter fishermen. In 1983 the figures show an overall decline in the number of fishermen from 1981 levels, to 8,075. Of this total, 7,173 were regularly employed, 815 partially employed, and 87 were crofter fishermen based in Shetland, Stornoway, Mallaig and Oban.

Obviously dependence on fishing does not end with the vessels. For the record, the number of persons employed in fishing-related activity ashore was 15,460 in 1983. This encompasses fish merchants, fish meal and oil manufacturers, vessel builders and repairers, net, wire and rope makers, ice manufacturers etc.

CONSTRUCTION



The total value of new orders received by contractors in Scotland during 1983 was £1331.12 million, an increase in nominal terms of 21.6% over 1982. However, adjustments made by the Department of the Environment to the data for 1983 mean that they are not truly comparable with those of previous years. Firstly, the exclusion of orders for open-cast coal work in the latter half of the year lowered the value of industrial contracts by approximately £6 million, and secondly, a revision of private housing orders raised their value in nine months of the year by around 10%. Taking these adjustments into account, orders in 1983 nevertheless show a 15% increase in volume over 1982. This will be translated into an increase in construction activity during 1984.

Within the overall improvement, there was considerable variation between particular types of work. The value of public sector new housing orders was down by 19% over the previous twelve months while contracts for other public work, in contrast, were 38% above their 1982 levels, although the bulk of the upsurge took place in the first half of the year. Despite the fall in housing orders, the global value of new public sector orders rose by almost 24%.

In the private sector there was an increase in total demand over the whole year of 19%, but this was entirely attributable to the strength of the private housing sector. Demand for non-housing work was static in nominal terms which means a contraction in real terms. The value of private housing contracts placed in Scotland in 1983 rose by almost 40% taking into account the revisions already mentioned. In other areas of work, there were few significant changes, although contracts for office building proved disappointing. The appearance of six orders, each in excess of £2 million, for shops in the last quarter rescued this sector from its depressed state of previous quarters.

Buildings feature prominently in new works announced recently. George Wimpey have been awarded the £10 million contract for the development of Shotts Prison; Span Construction are carrying out the first stages of work in the construction of a £2 million leisure centre at Ballater. The contract, worth £11 million, for the new Royal Scottish Academy of Music and Drama, has been awarded to Sir Robert McAlpine & Sons, and the building is scheduled for completion in 1987. William Tawse, part of the Aberdeen Construction Group, have started work on the £2.3 million fish meal and oil plant at Ardveenish on Barra. The same company recently received several orders, worth a total of £7 million, which include the construction of pumping stations at Arbroath and Trinity, Edinburgh. Barratt Urban Renewal are beginning a large development of new and refurbished housing in Edinburgh. The £8 million programme, providing over 300 houses, will take around three years to complete.

Ten major road construction schemes, each estimated at more than £1 million, are expected to start in the current financial year. The projects include the Musselburgh and Tranent Bypass (Stage II) and the East Fife Regional Road (Stage III). These road schemes, which will take 2-3 years to complete, have a combined cost initially estimated at £70.8 million, slightly below the level of orders received last year; however, these are selected projects and smaller road-building programmes will boost the 1984/5 total.

Final figures have yet to be made available on public housing activity in Scotland in the fourth quarter of 1983. Revised estimates for the third quarter show that the number of starts, at 791, was higher than had been previously indicated; however, the number was down on the same quarter of 1982 by more than 40%, and was around 8% lower than the previous three months of 1983. The number of houses under construction in the public sector continued to fall during 1983. Given that overall orders fell during last year, it seems likely that new house construction will continue to diminish in the public sector in 1984. There may be some prospect of renewed activity into 1985, however, since local authority capital expenditure on housing is forecast to rise by about 5% in real terms in the current financial year.

New starts in the private housing sector in Scotland improved in the first quarter of 1984, according to the National Housebuilding Council. The number of intended starts registered with the Council, which accounts for well over 90% of private housebuilding activity, rose to 3,600, the same level recorded during the corresponding quarter of 1983, and one third up on the previous quarter. This rise was considerably ahead of that recorded for Great Britain, and consisted primarily of flats and maisonettes in Scotland. The number of dwelling completions dropped by 200 to 2,900 during the wuarter, but was slightly higher than in the same period a year earlier. On the basis of these figures private housebuilding activity would seem to be reasonably secure in Scotland in the short term, although upward pressure on interest rates, and the relatively sluggish prices of new houses in Scotland may serve to temper this.

A new index of house prices has been produced by the Halifax Building Society. The index aims to present a standardised view of price movements. For the first quarter of 1984, the index shows that Scotland was second only to Greater London in the rate of house price increases in the UK. Averaged over all homes sold, prices were 10% higher than in the same quarter of 1983. The UK average for the same period was 7.3%. Clearly, house prices are rising strongly in Scotland. However, this average rate of increase conceals an interesting divergence between the values of new and existing Scottish properties. In effect, taking the first quarter of 1984 against the whole of 1983, existing Scottish properties are top of the price-increase league in the UK while new properties are at the bottom. Existing properties rose in price at an annual rate of 11.1% in that period, while new property prices increased by only 4.3%. At this rate, the prices at which new houses are sold are barely keeping place with inflation; one possible explanation for low rates of increase may be the rapidly expanded supply of new housing during 1983 in Scotland. Alternatively, high average prices relative to older property may have limited sellers' ability to raise prices by a greater amount.

Of the factors which will influence Scottish construction over 1984/85, few are encouraging. The public sector was the principal source of Scottish construction activity during 1983, but forecasts of public expenditure for the next year do not suggest further growth. Private housing activity may be encouraged by the diminishing supply of alternatives and rising real incomes, but on the other hand sluggish employment which must limit growth of new demand for housing. Industrial output has yet to recover strongly which has implications for business intentions to invest in new buildings. According to the CBI, there is a continued disinclination on the part of Scottish industry to undertake expansion of plant; against this, however, it must be noted that the phasing out of capital allowances on industrial building over the next three years may bring forward investment plans. Another budgetary measure, the application of VAT to alterations work from 1 June, has caused some concern to the building industry. Companies geared up to this type of work have experienced rising demand in the first half of this year, but there is a fear that future demand will be diverted to the unregulated sector of the economy.

ENERGY: OIL AND GAS

UK production of oil in the three months to February 1984 totalled 32.1 million tonnes, 17.2% higher than in the equivalent period a year earlier. 12.3m tonnes of this went to UK refineries and the remainder was shipped abroad. In the same quarter, indigenous natural gas supplied to the public system was 4.9 million therms, accounting for 75.5% of total natural gas supplied.

Latest estimates by the Department of Energy suggest that UK oil and gas reserves may be higher than previously thought. Recoverable proven and probable oil reserves in existing discoveries - the firmest measure of reserves - have been increased by 25 million tonnes to 1950 million tonnes. This is primarily because a number of existing fields have been performing better than expected. 'Possible' recoverable reserves (i.e. reserves which have a greater than zero but less than 50% chance of being exploited in prevailing economic and technological conditions) remain unaltered at 625m tonnes. The upward revision to gas reserves is more substantial. The combination of moving reserves from the 'possible' to 'probable' category plus the expectation of enhanced performance from producing fields raises the best estimate of initially recoverable gas reserves by 241 bn cm3 to 1615 bn cm3.

In view of recent favourable seismic results in the central North Sea, the Department of Energy has also substantially increased its estimates of undiscovered oil reserves from 230-2125m tonnes to 480-3275m tonnes. However, since by definition these figures refer to reserves of oil not presently found, they remain highly speculative. Indeed, this is clearly demonstrated by the width of the range quoted.

Exploration drilling is now taking place in 'frontier' areas of the UKCS. Britoil and Esso are both drilling west of Shetland and Conoco are drilling some 380 miles NE of Aberdeen. All of these wells are in water depths greater than 2,000 ft and will cost over £10m each. Conoco are particularly optimistic, believing that the sector may house an oilfield with reserves in excess of 1 bn barrels - larger than all but three existing UK fields. In February, Burmah struck oil in the deepest well sunk in the North Sea to that time, some 150 miles NE of Aberdeen.

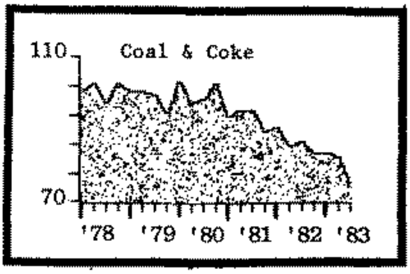
In March, BP pronounced four new gas fields in the southern North Sea to be commercially viable. Combined reserves of the four fields are estimated at 2.5 trillion cft and at full production their total output would be 400 million cft per day. Development cost of the fields will be £1.3 bn and seven or eight platforms will be required. In April, Conoco also announced a development programme for four new gas field at a cost of £750 million. Combined reserves of the fields are over 2 trillion cft and peak daily output will be 450-500m cft.

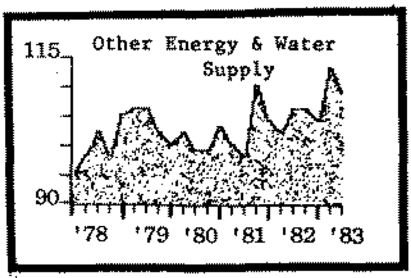
Announcements such as these cast further doubt on British Gas' proposed £20bn purchase of gas from Norway's Sleipner gasfield. Based on their own projections of gas demand and supply from existing sources, British Gas anticipate a shortfall in the 1990's which they feel can only be met from Sleipner. The Treasury is concerned about the balance of payments ramifications of the deal, and also feels that British Gas's demand projections are too high, particularly in the light of the Treasury's desire to see gas prices to UK customers rise in real terms over the next three years. Some offshore operators also oppose the proposal, on the grounds that there is considerable scope for further enhancing gas supplies from the UKCS itself. For commercial and technical reasons a final decision on the purchase of Sleipner gas will have to be made in the very near future.

In December 1983, wholly North Sea related employment in Scotland was 66,700, an increase of 3,400 from June 1983. Almost 25,000 of these were employed in oil and gas extraction and a further 18,400 in mechanical engineering. 72% of oil-related employees were located in Grampian region, almost exactly the same proportion as in June 1983.

ENERGY: COAL, ELECTRICITY AND WATER

The index of industrial production for the energy sector in Scotland continues to fluctuate narrowly around the 1980 level of 100. In the third quarter of 1983 it stood at 101.3 (down from 106.2 in the second quarter but little changed from the third quarter of 1982). This figure marked a wider difference in the two divisions of this sector - Coal and Coke on the one hand, and Other Energy and Water Supply on the other. The index for the former has fallen from 100 in 1980 to 86 in 1982 and stood at 75 in the third quarter of 1983 whereas the latter's index had risen from 100 in 1980 to 104 in 1982 and to 109 in 1983's third quarter.





These trends are broadly in line with those for the UK as a whole although both Scottish divisions performed less well than their UK counterparts. This is in line with the relatively more marked decline in Scottish heavy engineering and manufacturing industries compared to their counterparts in the UK as a whole. As these industries are the heaviest users of energy supplies, it is no surprise that the Scottish energy industries have experienced lower levels of output growth relative to their UK counterparts. The continued, albeit slower, growth of other energy and water supply is partly explained by the fact that the Scottish Electricity Boards export some of their output to the remainder of the UK grid south of the border. As the manufacturing/service industry and heavy engineering/light engineering ratios continue to fall the demand for the products of the energy industries will also moderate - a less than comforting prospect for Scotland's striking miners.

Since the last **Commentary** the overtime ban in the coal industry has developed into a bitter and intransigent strike in most of the UK coalfields. Only the Nottinghamshire area remains in significant production. The political aspects of this dispute are outwith the terms of reference of this Commentary - the economic aspects are not.

Two strands of the conflict have direct economic implications. First, the harmful effects on the economy in general. The word "harmful" is chosen with care because industrial disputes, in order to be effective, must bring discomfort either to employers, industry as a whole or the general public, otherwise their ability to act as a lever on management or owner is severely limited. It is with this factor principally in mind that the efficacy of the present strike must be questioned as the ultimate employer in this dispute, the government (and hence the taxpayer) is neither under threat of losing its livelihood (in the form of profits) nor of losing its major markets (the market for coal is regulated in this country with imports firmly restricted). The NCB is losing revenue from sales while continuing to incur interest costs on capital equipment and borrowing etc. but saving on wages. The final **real** cost of the dispute will be borne by taxpayers and domestic industry. The burden on any individual taxpayer will obviously be insignificant. The costs to industry as a whole are potentially much larger, though at present there is little prospect of power supplies being affected, (as in 1974), with consequent adverse effects on industry's output, exports and the level of domestic activity.

This highlights the second strand of this conflict which is the way it has shown the inter-relatedness and vulnerability of the Scottish economy. The row over supplies of coal to Ravenscraig amply demonstrates this point. If Ravenscraig were to close, either as a result of this dispute or through BSC's own actions, there would be a "domino effect" of secondary closures within Scotland. The loss of 4,400 steel jobs would also mean the loss of Polkemmet colliery's major market as Ravenscraig takes around 96% of that pit's output. This would mean the further loss of 1,400 miners' jobs. With the closure of Ravenscraig the SSEB would lose its single most important consumer. The reduction in demand for electricity could have the knock-on effect of closing one further pit. The secondary effects would not end there. Ravenscraig is the main customer at the Hunterston terminal which is the only outstandingly profitable operation left with the Clyde Port Authority. Deprive Hunterston of Ravenscraig's trade and its future becomes problematic. The threat of its closure and the damage this would do to the rest of the CPA group is incalculable. At worst it could mean that the whole Clyde port area could cease to operate in its present form. All of these direct job and expenditure losses would be followed by wideranging secondary effects. The total job loss would be several times the direct Ravenscraig losses.

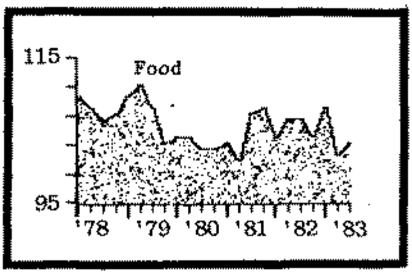
The development strategies of the NCB and the NUM are diametrically opposed. However, two recent developments cast doubt on the mineworkers' case for "expansion" of the industry. The first of these was the announcement by the European Commission that, while energy consumption in the EEC is expected to rise this year for the first time since 1979, the proportion met by solid fuel is likely to fall, reflecting greater reliance on nuclear power and natural gas and a stable contribution from oil. The second development was British Gas' attempt to secure government permission for a £20,000 million deal to purchase natural gas from Norway's Sleipner field starting in the 1990's and expected to run for 30 years. The proposed purchase would meet around a third to a half of UK energy demand and thus challenge the NUM's claim that coal presents the only long term choice as a British energy stock.

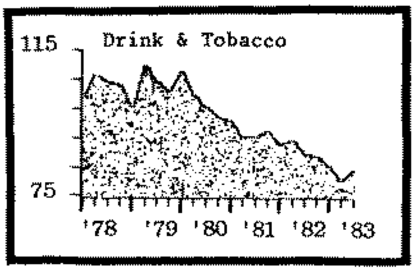
At present only one power station in Scotland is fired by natural gas - the Bodden complex at Peterhead operated by the North of Scotland Hydro-Electric

Board. It is the second largest power station in Scotland - the coal-fired Longannet station being the largest. All of Scotland's coal-fired stations - Longannet, Cockenzie, Methil (slurry) and Kincardine (on stand-by) - lie in the SSEB area but the amount of coal burnt in these power stations (and oil burnt at the Inverkip plant) have fallen sharply in the last two years because of increased generation at Peterhead and the nuclear stations at Hunterston. Although part of Peterhead's feedstock will be re-routed during 1985 to the Shell-Esso petrochemical cracker at Moss Morran, the Hydro Board do not expect to lose their full supply and continued operation with natural gas liquids and oil or a combination of both is envisaged. When the Torness nuclear plant becomes operational in 1987-88, the negative effect on coal burn will again be substantial.

FOOD, DRINK AND TOBACCO

Under the new classification of the index of industrial production, separate output indices are now compiled for the Food industries on the one hand and Drink and Tobacco on the other. The CBI in Scotland, however, continue to treat this as one sector.





The revised indices suggest that the food industry in Scotland did not suffer such a severe setback as did other manufacturing industries during the recession. Drink and tobacco producers, on the other hand, are still operating some 25% below 1979 levels of output. The responses to the latest CBI Survey show opinion evenly divided between optimists and pessimists, with two thirds of respondents expecting no change in business prospects over the next four months. However, a positive balance of about 20% reported an increase in both export orders and export deliveries during the past four months, while a similar balance expects an increase in both domestic orders and domestic deliveries in the coming four months.

The budget besides extending VAT to hot take-away food, also complied with a ruling of the European Court on harmonisation of taxation on wine and beer. Thus the duty on light wine was reduced by 18p a bottle while the duty on beer was increased by 2p per pint. Tax now accounts for about 25% of the cost of a pint of beer. In the last decade, taxes on drink and tobacco have moved rather strangely. There has been an increase of 30% in the real value of duty on a bottle of light wine, while the duty on a pint of beer has risen by 26% in real terms over the same period. On the other hand, the real value of duty on cigarettes fell by 1.6% while on whisky it fell by 23.2%.

There are continuing signs of imaginative new ventures on the part of smaller Scottish food-producing companies. No fewer than thirty-five of them have applied to take part in a new scheme, jointly backed by the Food From Britain marketing campaign and the Fine Fare super-market group, to finance the research, development and marketing of new food products. Other recent new ventures include the exporting of Scottish shellfish to France, Spain and the United States, and the development and exporting of sheep-cheese to the south of England. Food trade fairs held recently in Edinburgh and in Paris have demonstrated that there is a real demand for quality Scottish food products.

Amongst more traditional activities, Rowntree Mackintosh are to invest a further £1.5 million in their chocolate crumb factory at Girvan to increase processing capacity there by 50%. This will lead to an increase in milk intake to about 60 million litres a year, or about 4.5% of total milk production in the area of the Scottish Milk Marketing Board. This is particularly welcome at a time when Scottish milk producers are facing restrictions on their output, (see Agriculture and Economic Perspective sections).

WHISKY

Recent **Commentaries** have noted the growth of the whisky stocks/output ratio in the last few recessionary years. In 1980 the ratio stood at 7.3, by 1981 it had risen to 10.9 and in 1982 was even higher at 11.4. Although there is the usual three-year minimum legal maturation period (which is more normally extended to at least four) and perhaps as much as 10% of these stocks will be lost due to evaporation, the ratio now stands at an alarming level. The alarm is made ever more real by industry forecasts that a significant upturn in demand is not now likely until 1985. This, coupled with signs from an increasingly health-conscious America that "hard" drinking may be the subject of the next health fad, is undoubtedly causing concern among the major companies and the Scotch Whisky Association. But how has such a high stock-output been allowed to develop? The answer lies in the basic production structure of the whisky industry.

Whisky production can be conveniently split into two main categories: distilling and blending. There are around 127 distilleries throughout Scotland, only ten of which produce grain whisky. Most malt whisky is produced in relatively small distilleries in the Highlands whereas grain whisky is produced in large operations turning out millions of gallons per year. It is from these production centres that the blenders, the major firms in the industry, buy their stock and mix their particular blends of whisky. Employment in the industry is split more than two to one in favour of blending firms which also undertake bottling and packaging. In effect, distilleries produce to meet demand from the blenders who, because of the maturation process, have to forecast demand three to four years ahead when ordering. It is the very high production levels of the 1970's, due to the failure (albeit understandable to some extent) of the blenders to foresee the recession, which have led to massive overstocking in the industry. The fact that there are so many blenders and blends has merely compounded the problem.

In the 1970's 4.209 million litres of pure alcohol (LPA) (both grain and malt) were produced in Scotland. This compares with 2.750 m LPA in the 1960's and, in the first four years of the 1980's, 1.171m LPA. At this pace, output during the 1980's will amount to 2.927m LPA - barely above the levels of the 1960's. With the stock/output ratio at its present levels the whisky industry can afford to wait for positive signs of an increasing market before ordering new 'fillings'. The present indications are that there is little hope for an increase in production in 1984 and, if world debt conditions and the US market do not pick up over this coming year, 1985 may prove to be an optimistic forecast for a reversal of recent trends.

The world debt crisis has already hit the whisky industry hard. In 1981 exports to Latin America were valued at around £100m representing around 13% of total exports. By 1983 this figure had fallen by just over half to £49.4m and represented only 5.8% of total exports. The largest whisky market in South America, Venezuela, has been forced to cut back drastically in 1982 and 1983. In 1982 it took 4.5% (£39m) of Scottish whisky exports in value terms, last year this dropped to 2.6% (£22.6m).

The Budget on 13 March brought mixed news for the whisky prodcers. First, the 10p rise in duty per bottle was less severe than originally expected and, indeed, was less than the increase required for revalorisation. Duty now stands at £4.66 per bottle plus 15% VAT, with whisky and spirits in general remaining the most heavily taxed of all alcoholic beverages. Secondly, however, the Chancellor's abolition of stock relief will increase the tax burden on many firms 'laying down' new whisky. In its present state this may be bad news for the industry and will undoubtedly make blenders think twice about placing new orders.

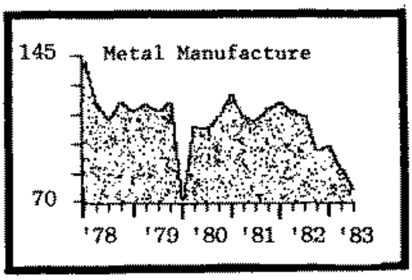
Company news has been mixed in the last three months. Tomatin Distillers, who own the biggest malt distillery in Scotland at Inverness, announced a pre-tax loss of £1.48m. This is the fourth year in a row in which losses have been made and although exports were up, demand for new whisky remained low. The Inverness distillery is presently being operated at 15% capacity. The news was less bleak from Invergordon Distillers who made a pre-tax profit of £3.6m. However, this was down £0.3m on the previous year due to a £0.5m promotional drive for their deluxe "Scots Grey" whisky in the US. On a brighter note both Bells and Highland Distillers reported increased interim profits. The former's were up 8% while the latter's rose by 14%. DCL have also been in the news with their £174m purchase of Somerset Importers in the United States giving them a direct outlet into the US retail wine and spirits market. DCL are to rationalise their distribution operations in the UK by co-ordinating marketing and selling of all their blends under one company. There has recently been heavy stock market speculation that DCL will be subject to a takeover bid in the near future. GEC bought a stake in the company and, although denying any intention to bid for the giant distillers, speculation continued to push up the share price which rose from 260p in March to 318p in early May.

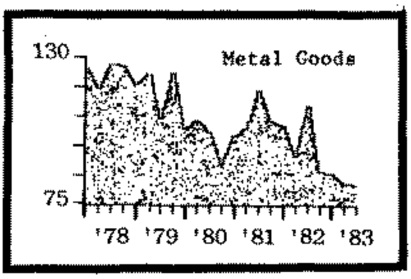
Two other companies involved in acquisition were Wm. Grants who have bid £5.7m to take over the Yorkshire brewery, Theakstons, and Seagrams who have bought a 75% share in the Oddbins off-sales chain. Whereas Seagrams purchase was plain sailing, Grants attempt to buy Theakstons brewery has been held up by legal wrangles within the Theakston family.

Finally, 1984 whisky exports got off to a bright start. After a fall of 9% in 1983 exports were up in January by 15.1% over the average of the previous year. However, the adage that 'one swallow does not make a summer' is one that whisky firms are all too well aware of.

METAL INDUSTRIES

Developments in metal manufacturing provide an interesting indicator of the recent underlying problems of the Scottish economy. Output of metal manufactures declined quite markedly between the beginning of 1981 and the third quarter of 1983. The reduction was most noticeable from the third quarter of 1982 through to the third quarter of 1983, when output fell 25% below the level of the preceding four quarters. Metal manufacturing output declined faster than output for the production industries as a whole over the period 1981-83. In large part these developments reflect the continuing decline in domestic metal-using industries and the availability of cheap foreign supplies as the recession continues to depress demand in international markets.





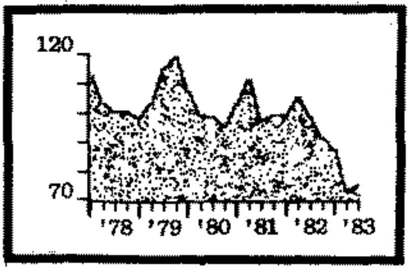
The dominant story in metal manufacturing continues to centre on the Ravenscraig complex in Motherwell. In pursuing their industrial action over the NCB's programme of pit closures, the NUM, invoking the unity of the "Triple Alliance", sought support from the steel-workers at Ravenscraig. Steel-workers responded, however, by pointing out that any industrial action on their part would only further endanger the future of the Motherwell complex. As Ravenscraig is a major customer of the NCB in Scotland, absorbing the entire output of high quality coking coal from Polkemmet at Whitburn, there is the attendant irony that closure of the steelworks would intensify the difficulties facing the Scottish coalfield. Nevertheless, having been denied full voluntary support from Ravenscraig's labour force, the NUM attempted to achieve curtailment of supplies of inputs to the steelworks. An apparent initial compromise between the unions, which involved the restriction of coal supplied to the two daily trainloads necessary to keep the furnaces operational and to meet key orders, quickly evaporated. Increasing pressure to block all supplies of inputs led to a steelworkers' request that the NUM treat Ravenscraig as a special case, an argument with particular force since the plant at Port Talbot and that at Llanwern, usually regarded as Ravenscraig's main rival for survival in the continuing debate over capacity reductions in the UK, had ample coal supplies and faced a lesser threat of blockade. After intervention by the STUC the NUM agreed to the resumption of two daily trainloads of coal. Implementation of this agreement was almost immediately prejudiced by a demarcation dispute at the Hunterston terminal. Further interruption of coal supplies to the plant must be considered likely given the NUM strategy of widespread industrial disruption.

While the resumption of supplies removes one immediate threat to Ravenscraig, the longer term outlook remains somewhat bleak, (See Economic Perspective). BSC's new strategy for the industry was completed in April. Both the BSC chairman and chief executive remain opposed to the retention of Ravenscraig, a view which they expressed to the recent Commons Select Committee on Trade and Industry. In line with last year's practice the new strategy is not available for public consumption. After consideration by government it will be passed to the EEC Commission for comment. It seems reasonable to conclude from BSC's submission to the Commons Committee that the new steel plan will contain a recommendation for Ravenscraig's closure.

Elsewhere in the industry there is a very mixed picture. While the takeover at Scott-Lithgows will help to maintain demand for the output of local metal manufacturing firms, there remains great uncertainty over the future of another large metal using concern - the Leyland plant at Bathgate. Martin-Black, the Coatbridge wire-rope manufacturer, reported a pre-tax loss for the fifth successive year in trading conditions which remain as difficult as in the recent past. Ayrshire Metal returned to profit and continues to pursue product diversification. Edinburgh-based United Wire announced increased profits with each of the group's companies experiencing continued improvements in sales. BSC's Craigneuk foundry, with some of the most modern equipment in the UK, has been merged in a 50-50 joint venture with William Shaw & Co of Middlesborough.

MECHANICAL ENGINEERING

Total British mechanical engineering sales for the three months to January were 3% higher than the previous quarter, due mainly to a 7.5% rise in exports. More ominously, however, new orders fell by 3% in both home and export markets and lagged further behind sales in absolute terms. Consequently, total order books contracted by 4.5% over the quarter.



The revised index of production suggests that Scottish output in this sector was 25% below the average 1980 level during the third quarter of 1983. While output in most other sectors of Scottish industry appeared to stabilise during the first nine months of last year, output in this sector slumped further, with the third quarter figure some 19% below the level of a year earlier. This is a markedly inferior performance to that of UK mechanical engineering where the fall in output over the same period was only 6%.

The CBI Survey for British mechanical engineering - no separate Scottish figures are available - shows a higher level of spare capacity in this industry than in most other sectors.

The Scottish industry has been subject to a number of reverses and continues to find the going tough in an increasingly competitive market place. The major event in this sector during the last quarter was the takeover of Scott Lithgow. Trafalgar House acquired a very considerable asset, paying £12m for a yard on which £13 million has been invested in offshore equipment alone in the last four years. However, the company intend to invest £20 million over the next four years on capital improvements and retraining. Although employment will fall from its current level of 2,900 to between 1,500 and 2,000 by the year's end, the yard may have a future in the highly competitive world of offshore construction.

One major indicator of the degree of competition in the offshore fabrication market was the Howard-Doris decision not to take up its option of a 25% equity stake in the privatised Scott Lithgow. Ostensibly, Howard-Doris decided against exercising the option because they wanted majority shareholding. In reality the decision probably reflects the fact that the Howard-Doris yard at Kishorn is on a care and maintenance basis with no new orders imminent. However, Wood Mackenzie, who take a much more bullish view of future prospects for oil platform yards, estimate that at least ten platforms will be ordered this year and perhaps as many as 18 in 1985. The 1985 total will be swollen by a relatively large number of orders for smaller structures for gasfield development in the southern North Sea. Although foreign competition will be fierce, the future for Howard-Doris may be far brighter than has hitherto seemed likely.

Elsewhere in engineering, the much-troubled Terex truck factory at Newhouse won orders worth £17.8 million. This will allow the company to hire an additional 140 workers and it is hoped that the workforce will be up to 600 by July. The company, which was re-acquired by GM in March, has declared 1,100 redundancies in the last five months. Another troubled company, John Brown Engineering of Clydebank, which had to lay off 500 of its 1,750 workforce last summer, has won £28 million worth of orders since the turn of the year.

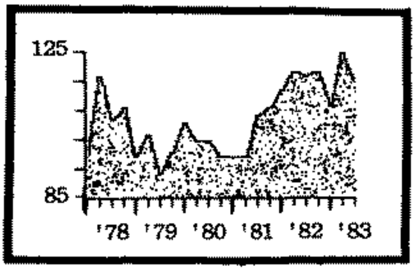
Other Scottish engineering companies experienced mixed fortunes reflecting the troubles and, in a few cases, the opportunities in mechanical engineering. The Weir Group's profits fell from £7.6 million to £4.9 million for the last financial year with the outlook still patchy for the company. In general lack of orders for capital goods obviously affects prospects but in Weir's case this problem has been compounded by a strike at their pumps factory at Cathcart.

Anderson Strathclyde have put 1,500 workers on short-time working as a consequence of the current dispute in the coal industry. This has exacerbated an already difficult situation born of a shortage of orders from the NCB. Rolls-Royce have announced that they will be reducing their Hillington workforce by 400 by the end of the year. The workforce will be cut to 2,500, down by more than 50% in two years. All the redundancies are to be voluntary. The Dundee engineering firm, Bonar Lang, also recently announced that 115 of its 600 workers are to be made redundant. Hyster Plant at Irvine is looking for 85 volunteers for redundancy. The latest layoffs will reduce the workforce to 365.

Finally, Babcock International have announced conditional approval for a £30 million investment at its Renfrew plant which currently employs 3,000. The plant which is run by a subsidiary, Babcock Power, is to become the most modern medium and heavy engineering plant in Britain. However, the investment depends on the availability of government assistance and the willingness of the workforce to accept new working practices.

ELECTRICAL AND INSTRUMENT ENGINEERING

While output in the Scottish mechanical engineering sector is now markedly below 1980 levels, the opposite is the case for Scottish electrical and instrument engineering. Output in this sector was some 17% above 1980 levels during the third quarter of 1983. However, the bulk of the expansion in output occurred during 1982 and there was little further growth during the first nine months of 1983.



The early months of this year were dominated by further announcements of start-ups in electronics. The Scottish presence in this sector grows apace, (see Briefing Paper). The most important news concerned the further development of the semi-conductor industry. The beginning of the year was marked by the announcement of a £100 million project by National Semiconductors at Greenock, which will create 1,000 jobs by 1987. In April Integrated Power Semiconductors (IPS) announced a £15 million investment in Livingston. The latter has been chosen as a base from which to supply first the European and later North American markets. IPS, which will not begin production until later this year, hope to employ at least 350 people over the next five years. The company believes that there is great potential for power driven and power supply integrated circuits. The Livingston plant will have wafer fabrication facilities as well as some assembly capability, electrical and environmental testing, marketing and shipping functions.

Other developments in electronics include a £500,000 investment by Berkeley Glasslab at Cumbernauld to produce quartz glassware for the semiconductor industry. The plant will eventually employ 50 people. NCR at Dundee will share in a $100 million order from Norwegian banks and finance groups for data processing equipment. The extent of the Dundee allocation is unknown but the automatic teller machines and 1632 branch processors which are part of the order are manufactured at Dundee. A £3 million order for computer aided engineering systems has been won by a Livingston-based subsidiary of Ferranti. The company, Ferranti Infographics, will supply the equipment to the Royal Ordanance factories. Infographics employ 150 people at Livingston, most of whom are engineering and computer-science graduates. Inforgraphics believe that its system known as CAM-X is now ready to tackle the highly competitive but very lucrative US market.

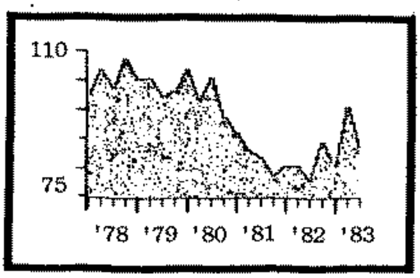
One of the most interesting developments of the quarter was the acquisition by Applied Computer Techniques (ACT) of Glenrothes (manufacturers of Apricot computers) of the worldwide manufacturing rights to Victor Technologies computer business. Under the agreement, ACT will be free to manufacture Victor personal computer products anywhere in the world. ACT is a fast-growing company which recently launched a £17.2 million rights issue. The takeover will allow it to manufacture the Sirius computer for which it previously held UK distribution rights. Finally, IBM's plant at Greenock will share in the increase in employment throughout the UK which the company plans for this year. IBM expects to employ an additional 1,000 people, of whom about 150 will be at the Greenock factory.

There was also good news in electronic engineering. The Timex Corporation factory in Dundee, which ceased manufacturing watches in January 1983, is to manufacture telecommunications equipment and computer peripherals. Over the past 18 months the workforce has been cut from 4,000 to 1,800 following the dislocation of production caused by the loss of mechanical watch manufacture and the MIMSLO 3D camera contract. Hopes are high that, following investment in new equipment and retraining and the hiring of engineers and technicians for research, development and testing, the plant has a relatively secure future. The plant is the world's largest producer of personal computers for Sinclair Research. The two new assembly contracts are to start in July.

Scotland's only telephone manufacturing company, TMC of Airdrie and Belshill, have won £17 million worth of contracts from British Telecom for the supply of more than one million phones. Over 80% of TMC's output goes to BT. The company, a subsidiary of the Phillips group, is the sole survivor of the Scottish phone manufacturing industry. At one point in the 1970's, employment fell to only 600 people. Now, thanks to Research and Development work and the onset of push-button phones together with much new investment, the company employs over 1,200 in its Scottish operation.

TRANSPORT EQUIPMENT

The index of industrial production for Scotland has been rebased to 1980 and adjusted to conform with the new Standard Industrial Classification. In re-classifying the SIC the old sector of Shipbuilding, Marine Engineering and Vehicles has been partly incorporated under the new heading of Transport Equipment. Marine engineering has been dropped from the sector while railway and tramway vehicles, cycles and motor cycles, and aerospace equipment are now included in it. The reconstituted index displays substantial fluctuations from the third quarter 1982 to the third quarter 1983 which are difficult to interpret.



QUARTERLY CHANGE IN THE INDEX OF PRODUCTION FOR TRANSPORT EQUIPMENT

1982 Q3 - 1982 Q4	+ 11.4%
1982 Q4 - 1983 Q1	- 6.8%
1983 Q1 - 1983 Q2	+ 17.1%
1983 Q2 - 1983 Q3	- 9.4%

These figures are seasonally adjusted but are subject to revision - it will be interesting to see whether any subsequent revisions actually take place. In comparison with the UK figures, the fluctuations become even more odd. The UK index was unchanged in the year to September 1983 whereas the year-on-year change for Scotland over the corresponding period was +9%.

With the re-classification of the SIC, the now privatised Scott Lithgow oil rig-building yard (owned by Trafalgar House) has passed into the Mechanical Engineering sector. This leaves only five British Shipbuilders yards in Scotland - four on the Clyde; Govan, Ferguson-Ailsa, Cleland and Yarrows, and one in Aberdeen, Hall-Russell. Doubts about the future continue to hang over the yards in the merchant division - Govan and Ferguson-Ailsa. In particular the latter must receive new orders by the summer otherwise 800 jobs at the yards in Glasgow and Troon will be in some danger. Meanwhile, those involved in war shipbuilding and Ministry of Defence contracts - Hall-Russell and Yarrows - look assured of a safe future.

Only 43 new orders for ships of 100 gross tons or over were placed in the UK during 1983, 12 less that in 1982. In tonnage terms, however, the fall was much more drastic, from 328 to 114 thousand gross tons. This fall off occurred during a year when new orders rose sharply worldwide. However, Japan alone cornered 80% of newly-ordered tonnage with South Korea also emerging as a major force in the market.

The crisis in British shipbuilding, which now accounts for only 2% of total tonnage under construction worldwide, is paralleled by the state of the British shipping fleet. Although still the eighth largest fleet in the world, its tonnage fell by 15% in 1983 and its share of world tonnage was down from 5.25% to 4.5%. How much March's budget changes in capital allowances will influence the future size of the industry remains to be seen although one company, Aberdeen-based Seaforth Marine, are already reassessing a proposed £5 million order for an offshore supply vessel.

One major area of success in the transport equipment industry is the impressive performance of the British Aerospace operation at Prestwick. Production of the Jetstream 31 turbo-prop is set to increase by 50% to 36 aircraft per year by 1986. This development is expected to provide 150 new jobs and bring the total employed at the plant to 1,900. In the past three years £50 million has been invested at the Scottish Division as the company has made inroads into the commercial market in the US and the military market at home.

The biggest cause for concern in the transport equipment industry at present is the future of British Leyland's light-truck plant at Bathgate. Layoffs during May will affect 800 of the plant's 1800 employees. The trucks division of British Leyland has experienced some difficult years since the onset of the recession in 1979. In all, employment in the BL Trucks Division fell from 28,000 in 1978 to 15,000 in 1983 with over 4,000 of these losses occuring at the Bathgate plant. At the same time the division's output has fallen from over 30,000 trucks in 1977 to around 11,000 in 1983. The company has capacity at present to produce 20,000 per year. With this level of capacity and projected output of only 12,000 trucks during the current year the outlook for Bathgate is not good. Indeed, the vacillation on the part of Leyland's senior management and the government on whether or not to announce the company's corporate plan points ominously to the plant's demise. The government's hesitation may be designed to to give the Scottish Secretary time to investigate various avenues to safeguard the plant's future, even in an attenuated form.

An ominous pointer to BL's intentions for the plant is the fact that the Terrier, Bathgate's only commercial vehicle for the domestic market, is to be phased out and replaced by the MT211 which is to be built at the company's plant in Lancashire. The prospects of a Trafalgar House-style takeover are slim. Unlike the Scott Lithgow situation, world demand for Bathgate's products is depressed and there is little prospect of any alleviation of the debt crisis facing those less developed countries which comprise a large part of the overseas light-truck market. In addition, the industry is fiercely competitive. Bathgate is particularly dependent on overseas truck orders from Africa and the Middle East. One of its most important markets was Nigeria which, in 1982, took 1,300 trucks from the West Lothian plant. In 1983 this number fell to 100, with little upturn likely during the current year.

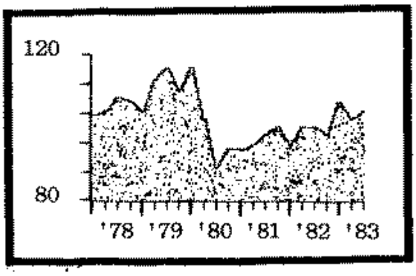
The rundown of Leyland's operations at Bathgate contrasts with the experience of the other major truck builder in Scotland - Volvo in Irvine. While the Volvo operation is on a much smaller scale, with capacity to produce around 1,600 vehicles per year, it has ridden out the recessionary storm much more successfully. This summer the plant will be re-organised to incease capacity to 2,000 vehicles per annum with continued employment for around 500 men. Helped by its reputation for quality Volvo has continued to increase its market share in the heavy trucks, (ie trucks weighing more than 3.5 tons), sector.

One other bright spot in the vehicle industry was the announcement in April of the establishment of a high performance specialist car manufacturing plant in Cardonald, Glasgow. AC (Scotland) will employ 30 men and build around 400 cars per year. The car, the AC 3000 ME, will sell for £12,500.

CHEMICALS AND MAN-MADE FIBRES

The index of industrial production for Chemicals and Man-made Fibres in the UK moved steadily upwards in the first three quarters of 1983. This move had been predicted by industry experts, as reported in the February issue of the **Commentary**, but the fluctuations in the Scottish figures were not foreseen. From a high of

107 in the first quarter of 1983, the index fell to 102 in the second quarter and rose again to 104 in the third. The corresponding UK figures for the period were 104,106 and 108 respectively.



During the first nine months of 1983 capital spending in the UK chemical industry was 14% higher in real terms than in 1982 as a whole. Further significant increases are likely. Last year's increase was the first for five years, (in 1982 capital spending decreased by 17%), and marks an improvement in US and European demand. This investment does not involve major additions to capacity but rather is aimed at improving technology and efficiency in older plants. This strategy, and that of diversifying into specialist chemicals, is essential in the light of capacity increases in high volume petrochemical products in the Middle East. In particular, Saudi Arabia, with its indigenous supplies of low cost feedstock, will be well-placed to compete in the volume petrochemical market. In this instance, UK avoidance of a possible chemical price war is desirable, since the European chemical industries would be in a most vulnerable position in the long-term under such circumstances.

On the company front, Scottish Agricultural Industries reported an increase in taxable profits of £1.29 million in the year to 31 December 1983. This brought pre-tax profits to a total of £6.02 million for the ICI fertiliser, compost and animal feed subsidiary.

TEXTILES, LEATHER, CLOTHING & FOOTWEAR

The latest available data from the official index of industrial production confirms that the turning point of the recession in the textile industry in Scotland came in the second quarter of last year. Since then, there has been a widespread improvement across all sectors of the industry which has continued into this year. This expansion has come from a very low base and still leaves production some 20% below 1979 pre-recession levels.

One firm which has successfully weathered the recession is Don Brothers, Buist, which employs some 1,400 people in a dozen plants in Angus and Perth, weaving primarily synthetic raw materials into a range of industrial textile products. They have prospered by continuously introducing the most up-to-date machinery and by expanding their range of products. They are now the largest polypropylene textile extrusion and weaving business in the UK, and the second largest in Europe.

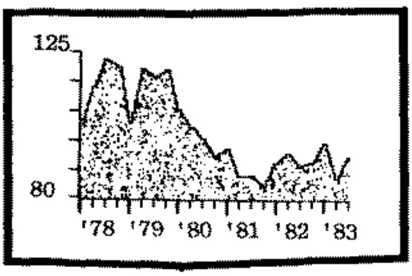
Scotland's two giant textile groups, Coats & Patons and Dawson International, also weathered the recession fairly well, and, according to the textile analyst of a leading London stockbroker, their shares are still at a discount. Dawson's have just completed a six-months search for a suitable US acquisition. After reviewing three hundred firms, they have bought for £30 million a manufacturer of high quality thermal underwear, which has 30% of the US market but no export sales.

Coats Patons reported record profits of £87 million in the financial year just ended, up 13% from the previous year. In the light of a 25% drop in sales in troubled South America this was a particularly creditable performance with the UK, Europe and North American areas of the group's activities increasing their profits by 36% to £57 million. The group's £500,000 diversification into bio-technology ended rather abruptly in March with the sale of the Monotech Laboratories to Inveresk Research International.

Response to the latest CBI Survey of the industry in Scotland is certainly encouraging. A balance of 55% of respondents are more optimistic about their prospects now than they were four months ago. Significantly, 80% of respondents report they are working to capacity, while the volume of new orders reported shows encouraging positive balances of 53% and 49% for domestic and export orders respectively. Equally encouraging is the reported trend towards the employment of more workers. The optimistic tone of the CBI's Survey of the sector as a whole is certainly borne out by reports from individual firms in the Border knitwear industry, who are working flat out. Most firms in this sector of the industry export a very high proportion of their output and cite the low value of the £ as a major factor in their present level of activity.

Organisational changes have affected two well-known Scottish textile firms. Antartex, whose liquidation was reported in the last issue of the **Commentary**, re-opened on 1 May after a management buy-out. It is hoped that by August of this year 60 of its former 93 employees will be offered jobs. The final break-up of the Black & Edgington empire leaves the Andrew Mitchell Group in the hands of the former managing director of Black & Edgington, through a management buy-back. The group employs around 500 people in Port Glasgow in the manufacture of canvas goods and specialist clothing.

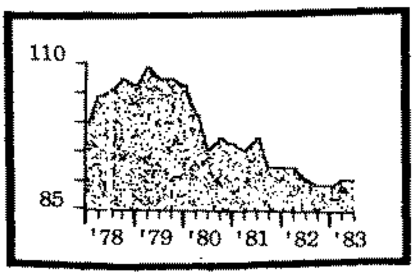
OTHER MINERALS AND MINERAL PRODUCTS



The latest index of industrial production for Scotland shows that output in the third quarter of 1983 of minerals and mineral products rose by 7% to an index level of 98, (1980 = 100). Taking the twelve months to September 1983 over the previous twelve months, production has risen by 2%, a slightly better performance than in the UK as a whole. Output in this sector, which includes the extraction of minerals and the manufacture of bricks, tiles, pipes, cement and glass, reflects the state of construction activity in Scotland. As orders for the latter improved during 1983, the demand for building products should rise during 1984. Figures for Great Britain reveal that brick production continued to rise into the first quarter of 1984, but cement production fell from its high fourth quarter level. There may be a temporary surge of demand for building materials in the first half of 1984, brought on by the scheduled imposition of VAT on alterations work from 1 June.

PAPER, PRINTING AND PUBLISHING

Signs of revival in paper and printing noted in the latter part of 1983 have been confirmed in the last few months by a number of highly encouraging company results. The Macfarlane Group (Clansman) report record results for 1983, with pre-tax profits up 17.2%, and a continuing upward trend in sales and profits for the first quarter of 1984.

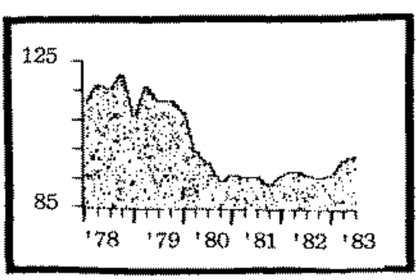


Excellent profits for 1983 and prospects for 1984 are also reported by Robert Maxwell's British Printing and Communications Corporation. Though higher prices for pulp are a source of some concern, expecially for the smaller non-integrated companies, the drastic rationalisation forced on the industry in the past five years has left the remaining firms in a much stronger competitive position. Purchase of the Fife-based GB Papers by US firm James River also offers the prospect of expansion, as the acquisition is designed to provide a foothold in the EEC market. Another small specialist firm, John McGavigan of Kirkintilloch, which is involved in printing on plastics for industrial graphics, is diversifying into the production of electronic control panels for the car industry and for office equipment. Financial support is being given by the SDA and the Industry Department in Scotland, and the project will create 40 new jobs.

Major news on the publishing side is the remarkable turnaround in the fortunes of William Collins, whose share price jumped 33p to 493p following the announcement of a near-doubling of profits for 1983 and bullish prospects for the future. After years of job losses, employment increased in 1983 and employment prospects are now considered to be very stable. Finally, a new venture in Scottish publishing is marked by the launch of Scottish Business Insider, published and edited by former Sunday Standard journalists Alastair Balfour and Ray Perman.

OTHER MANUFACTURING

For this sector, which includes timber, rubber and plastic products and miscellaneous industries, information on current trends is limited and patchy. The index of industrial production for Other Manufacturing in Scotland showed a sharp rise in the second quarter of 1983, and a further increase in the third quarter, suggesting that this sector too is climbing out of recession. Like most other industries, however, production has not yet recovered to its 1980 level.



COMPANY FORMATIONS AND DISSOLUTIONS

In the first quarter of 1984 there were 1,349 companies incorporated in Scotland and 436 companies disolved. Once again, these figures are large by historical standards and care should be taken in their interpretation for they are as likely to reflect institutional as economic factors.

The Service Sector

THE FINANCIAL SECTOR

The most notable event of the last quarter for both Scotland and UK financial institutions was the Budget announcement of measures to reduce the restrictions and impediments constraining investor's choice and affecting the allocation of capital. Differential tax treatment between institutions and the consequent growth of a forest of regulations designed to restrict tax avoidance have led to distortions in financial markets that often result in a loss of revenue to the Exchequer. Such distortions bias investor behaviour and run counter to the efficient use of capital resources from a wider economic perspective. The continued shift of private sector funds from direct ownership of shares to holding assets through a financial intermediary, such as an insurance company, is one of the more obvious examples of this trend. The ability of an investor to secure adequate diversification with a small number of holdings, easily demonstrated theoretically and well supported by empirical evidence, suggests that for many investors direct holding of assets is both feasible, and, in so far as it reduces transaction costs or improves investor choice, desirable. The Government's renewed interest in promoting direct investment, together with its long term strategy designed to increase competition and reduce market imperfections, has inevitably led it to examine UK capital markets and propose changes in the tax treatment of different investments.

The most important of these changes is the removal of tax relief on new life assurance policies. New investment through insurance will no longer qualify for tax concessions thus putting such policies on a more equal footing with investment in the stock market. Life companies will have to make significant adjustments. Competition for funds must intensify since insurance policies without the tax relief will no longer have a yield cushion over investment and unit trusts. The link-up, for tax reasons alone, of insurance with unit trusts is no longer useful and in the longer term this investment combination may be expected to contract significantly. The ability of insurance companies to advertise, however, may provide a continuing incentive to investment trusts to combine sales of trust shares with insurance, (while also pointing to another restriction that the government could usefully reconsider). The abolition of life premium relief must in addition induce readjustment in the housing finance market. The introduction of MIRAS (mortgage interest relief at source) inspired a boom in endowment mortgages which is unlikely to continue with the increased costs to new policyholders that the ending of relief brings.

Not all of the insurance companies' business is directly affected by the changes. Pension business continues as before with the industry likely to promote pension plans with renewed vigour. More imaginative pension plans aimed at utilising tax benefits to the full are inevitable. Indeed the removal of a host of regulations aimed at preventing abuse of the life assurance relief will allow the companies to provide more flexible policies better suited to individuals' needs. In addition, changes in the selling of policies may come about as a consequence of the Budget. Sales of life assurance will be more difficult in future with the result that intermediaries and agents responsible for generating much of the business of the Scottish companies may find it advantageous to promote other investments with adverse consequences for the Scottish life offices. Direct selling companies (predominantly English) will be much less affected by such pressures - although this is not necessarily in the interests of the consumers.

The Budget also introduced taxation of interest on bank deposits at source, bringing treatment of bank depositors into line with that of building society investors. A composite rate of tax will be charged from April 1985 on bank interest payments making bank deposit rates instantly comparable with their main competitors. The change seems likely to induce banks to offer more competitive rates in future. The same treatment has not however been accorded to National Savings deposits. Since low tax payers cannot reclaim tax paid at the composite rate they should transfer their balances to National Savings accounts (so long as gross rates on National Savings are above the net rates offered by the banks and building societies).

These changes, together with the taxation of building society profits from dealing in gilts, have brought the treatment of building societies and banks more into line and presumably foreshadow changes in the legislative framework governing building societies to allow them to compete more effectively with the banks. Differences in tax treatment still persist after the recent measures with some benefit, on balance, to the building societies. Competition post-Budget is certainly much more evenly matched than before.

The important question left unanswered by the Budget is the strength of government's determination to reform the competitive framework of capital markets. If, as seems likely, the Budget measures are the harbinger of more significant changes to come, then the institutions must prepare for considerable upheaval in their markets, products and structure. Placing all financial institutions on an equal footing would induce dramatic changes in investor choice with consequent effects on intermediaries. In the pension market, for example, although portable pensions are the current concern, the withdrawal of all or part of the tax benefits associated with pension contributions would be of far greater consequence. Similarly the payment of capital benefits free of capital gains tax on maturity of a life policy provides the holder with more favourable tax treatment than that accorded to the direct investor liable to capital gains tax on his profits.

One of the most important measures to promote the free flow of capital would be the removal of tax incentives to home owners. At present the mortgage relief subsidy distorts investment towards home ownership thereby inducing greater investment in housing than would otherwise be the case. However, removal of this major and significant barrier to capital market efficiency would run directly in the face of government policy on increasing home ownership.

The foregoing are but examples of the remaining host of distortions and force the conclusion that the changes promised so far do relatively little to remove the imperfections in the capital market that impede the efficient allocation of resources.

The purely Scottish consequences of the recent measures are small but the possibility of more dramatic future changes suggest a need for advanced planning and thought. Portfolio vehicles which are easily understood, flexible and readily marketable are the most likely beneficiaries of future changes. Unit trusts are an obvious example but there seems no reason why other institutions should not offer investors alternative forms of flexible investment contracts. Scotland's existing very poor representation in the unit trust sector does not bode well for local financial institutions and suggests that the devising of other attractive financial alternatives should be a matter of priority.

Other aspects of the Budget were also of some consequence to the financial sector (see Economic Perspective below). Most important were the changes in corporation tax and capital allowances with consequent effects on the banks and their leasing activities. The necessity to make substantial provision for paying deferred tax has imposed a strain on the capital base of the banks increasing the need for a rights or other capital issue. The Bank of Scotland has already announced a scrip and rights issue and further issues by the other banks cannot be ruled out.

DISTRIBUTIVE TRADES

The UK **retail** sales volume index for the first quarter of 1984 was 1.5% lower than the fourth quarter of 1983, but 3% higher than in the first quarter of 1983. The most recent CBI/FT surveys of retail trades clearly indicated retailer disappointment at the performacne of sales in the first quarter. Bad weather was generally felt to be the main reason that results did not live up to expectations. However, the survey shows retailers remaining optimistic about short-term prospects. A balance of 70% expected sales to be higher in April 1984 that in April 1983. Hopes of increased sales in April were strongest in those categories which had performed most poorly relative to expectations in March - clothing, footwear and leather goods.

Scotland's largest independent supermarket company, Wm. Low, reported a 23% rise in pre-tax profits in the half year to March. Turnover rose by 16% during the same period with the company opening new stores in Forfar, Lanark and Edinburgh. The group is now in the top twenty most profitable Scottish companies.

The latest CBI/FT survey of UK **wholesaling** showed that a balance of 29% of wholesalers covered had higher sales in March 1984 than in March 1983. This was the second lowest positive balance recorded since the monthly survey started in July 1983. Overall first quarter results did not live up to wholesalers expectations. Particularly disappointing sectors were fuel, durable household goods and clothing. However, as with retailers, wholesalers were optimistic about the prospects for April. A balance of 49% predicted a rise in sales volume compared with April 1983.

Respondents to the CBI/FT **motor trades** inquiry reported a disappointing first quarter, with sales down on balance from the equivalent period in 1983. Nonetheless they were expecting increased turnover in April.

February saw the biggest take-over in the Scottish motor trade for years when Belmont Garage Limited acquired its biggest rival for Nissan sales, Bill Weir Limited. Weir will be kept as a going concern and Belmont now has strong bases in both the east and west of Scotland.

TOURISM

Towards the middle of 1982 a growing mood of optimism began to manifest itself in the British hotel industry. This mood steadily gathered momentum throughout 1983. Although most reports centred on the London hotel market the upturn was experienced throughout Great Britain. The Scottish Tourist Board (STB) took the unprecedented step of announcing a substantial increase in visitor numbers and tourism receipts well in advance of their published 1983 statistics. Evidence from the Scottish Hotel Occupancy Survey for 1983 gives credence to this statement.

The Scottish Hotel Occupancy Survey is sponsored by the STB and carried out by the Tourism and Recreation Research Unit (TRRU) of the University of Edinburgh. It is a monthly postal survey ranging across the whole spectrum of the Scottish hotel industry. Whilst it is prone to all the usual difficulties and deficiencies of postal surveys it is without doubt one of the most accurate barometers of the whole industry

Table 1 Hotel Bedspace Occupancy Rates for Scotland 1977-1983

	1973 %	1980 %	1983 %
January	23	19	21
February	27	25	27
March	31	28	26
April	35	32	32
May	46	42	43
June	60	49	48
July	66	52	54
August	70	56	62
September	60	47	58
October	42	39	41
November	26	24	27
December	20	19	21

Source: Scottish Hotel Occupancy Survey

Table 1 illustrates how hotel bedspace occupancy rates have fluctuated during the last seven years. Bedspace occupancy has been chosen since bedroom occupancy rates can be somewhat misleading as hotels will often sell double or twin bedrooms to a single occupant during periods of low demand. British hotels generally charge tariffs based upon the number of occupants in a room rather than the American practice of standard room rates irrespective of the number of occupants. Thus a double or twin room sold to a single occupant would generate less income to a British hotelier and surveys of bedroom occupanies in this country would have a bias towards optimism.

The starting date of 1977 for the table was chosen not because it represents the peak year of the tourism 'boom' of the 1970s but because it marks the end of a period of almost continual growth in visitor numbers and receipts. Thereafter the inflated value of the Pound led to a fall in the number of overseas tourists and to increased competition for British holidaymakers from other tourist destinations. Substantial increases in the cost of petrol in subsequent years and fears about its availability in outlying areas dissuaded potential domestic and foreign visitors to Scotland. The run of wet summers after 1976 also have had a detrimental effect on Scotland's hotel industry as potential domestic holidaymakers decided in favour of destinations with more reliable climates. The economic recession also contributed to a downturn in demand for hotel accommodation from visiting businessmen and a decline in the conference market. These and other factors brought about a period of contraction and retrenchment in the Scottish hotel industry which has thus far characterised the 1980s.

The strengthening of the dollar from 1982 onward was the primary cause of growing optimism in the British hotel industry. As expected, the numbers of American tourists subsequently increased bringing about improved occupancies in all categories of hotels in central London (still the primary entry point to Britain). This led to a revival of interest in the London hotel market as both domestic and international hotel companies sought new properties in the capital. It is interesting to note that whereas the previous revival of the London hotel market in the early 1970s led to a construction boom, the current interest is in the purchase and refurbishment of existing hotels. Scottish hotel companies have participated in this revival with Reo Stakis purchasing the St Ermine Hotel and Glen Eagle Hotels buying the Piccadilly. In its attempts to raise the estimated £14m required to refurbish the Piccadilly the Glen Eagles Group was taken over by Arthur Bell and Sons PLC.

Other Scots companies who were either reluctant to make, or could not afford, London aquisitions entered into marketing and referal agreements with operators in the capital. One such example is Scottish Highland Hotels collaboration with Embassy Hotels. Such agreements are made with the aim of capturing the lucrative overseas visitors at their point of entry and persuading them to stay at the same group's hotels in Scotland. The prize is worth the effort as the British Tourist Authority estimates that overseas visitors spend at least three times as much as domestic tourists in Britain.

There has been considerable activity in Scotland itself during the last year by both indigenous operators and international companies. Scottish Highland Hotels is currently expanding its Edinburgh presence through the purchase and development of the Carlton Hotel. This has been financed by the sale of two of its less profitable hotels in the north and a sale and leaseback arrangement with House of Fraser whose premises will be incorporated into the enlarged hotel. The Sheraton Corporation's new hotel under construction in Edinburgh is progressing well and there have been reports in the press of other American and international hotel companies expressing interest in an Edinburgh presence. It remains to be seen whether this interest will be transformed into action as the city's marked seasonality has tended to discourage would-be developers.

The Aberdeen based Skean Dhu company opened its new Glasgow hotel mid-way through last year in anticipation of an upturn in demand for business and tourist accommodation in the city. However the expected improved occupancy figures have not materialised and the company is currently looking for buyers. Stagnant occupancy rates in Glasgow during 1983 have prompted a number of hoteliers in the city to speak out against the City Council's proposals for a new hotel at the Queens Dock Scottish Exhibition Centre. The hoteliers claim that the city is already oversupplied with accommodation and that any new hotel may force the closure of some existing operations.

Generally however most of Scotland's hotels experienced improved occupancy rates during 1983. Despite a sluggish start to the year most regions had picked up on the previous year's results by the peak summer months of July and August with occupancy rates generally staying higher through the rest of the year. Thus, these figures would appear to vindicate the optimism of those hoteliers who completed development programmes prior to the start of the 1983 season.

Both the Scottish Tourist Board and the Highlands & Islands Development Board reported a resurgence in the number of applications for financial assistance towards hotel projects in 1982. This was despite the fact that both Boards recognised that 1982 had not been a particularly good year Scottish hoteliers. In their annual reports for that year both Boards were of the opinion that hoteliers were anticipating a recovery in the industry and that the more astute were embarking on development programmes which would enable them to maximise the benefits of the revival. Although the annual reports of the two Boards for 1983 have yet to be published there is every indication that the number of applications was even greater as hoteliers sought to impliment deferred development programmes. Ther is however no guarantee that 1984 will see the sustained improvement in occupancy figures so keenly anticipated by Scottish hoteliers. The year promises to be crucial for operators across the whole spectrum of the Scottish hotel industry.

TRANSPORT AND COMMUNICATIONS

The Secretary of State for Transport, Mr Nicholas Ridley, has ordered a major review of Scottish airports policy. This follows the Civil Aviation Authority's (CAA) decision to allow British Midland Airways (BMA) to operate transatlantic services from Glasgow Airport instead of Prestwick, the designated North British gateway for intercontinental flights. The decision was appealed by the British Airports Authority (BAA), owners of both airports. In announcing the review, Mr Ridley has blocked the CAA decision on the basis that it runs contrary to the existing airports policy. Should a new policy emerge permitting transatlantic operations from Glasgow, the future of Prestwick would be problematic. As outlined in the previous Commentary, Prestiwick suffers such serious locational disadvantages that it would almost certainly lose its two remaining transatlantic carriers, Air Canada and North-West Orient.

In April, British Airways (BA) applied for a licence to fly from Manchester to New York. This move is widely regarded as an attempt to undermine BMA plans to operate between these two destinations via Glasgow. This however, is not the complete explanation. It is clear that BA foresee a role for a major gateway in the North-West catering for non-London intercontinental business. Thus, the issue may become, not Prestwick versus Glasgow, but Scotland versus the North-West for senior gateway status. If such policy questions emerge, Scotland's eggs are in a particularly unsuitable basket. The BAA appear wedded to continued prominence for Prestwick and are reported to be confident that the proposed review will re-emphasise its role. Such an outcome would fly in the face of reality. Air transport is becoming increasingly competitive and most major airlines implicitly or explicitly view Prestwick as a liability in terms of marketing their services and expanding business. Prestwick's continued gateway status can only reflect short-term considerations or political expediency. The message is quite stark; the market has rejected Prestwick and created pressure for change towards either Manchester or Glasgow. At present Glasgow has disadvantages and requires upgrading. Writing off the infrastructure at Prestwick would impose wider social costs in the immediate locality. Such costs would be offset by increased employment at Glasgow, alternative uses for Prestwick and the benefits accruing from increased activity in industry, commerce and tourism stimulated by the development of more effective links between Scotland and North America. Scotland would be best served by official recognition both of the dangers inherent in measures designed to retard Prestwick's inevitable decline and of the wider benefits for the whole Scottish economy of investment at Glasgow.

It is not only Scotland's lowland airports which face uncertainty owing to government policy. The government appear intent on privatising the small Highlands and Islands airfields. While these facilities are managed by the CAA, the current losses of £3.6m are underwritten by the Scottish Development Department.

It is difficult to diagnose how privatisation is relevant to these airfields or to identify any beneficial effects, other than some reduction in the central government's borrowing requirement, which would flow from such a sale. At present there is a serious danger of mispricing should any bids emerge. **With competition for the assets,** bids would fully reflect expected future earnings. Given recent developments this could well imply a positive price for some of these airports. BA, whose Highland operations are currently in profit, have announced a £10m investment programme in new and upgraded aircraft, while Loganair are rapidly moving towards profitability and anxious to introduce new services to compete with BA. One possible outcome of these developments is an expansion of the market with consequent increased revenue for the airports concerned. In the short-run, however, this expansion could be compromised by rising costs such as increased landing fees consequent on privatisation.

Given the uncertainty involved, the airports appear, at present, to be worth little to rational businessmen, a conclusion reflected in the complete absence of bids. This may always be the case, which would dictate perpetual subsidies to these facilities and raise questions of whether such payments should be financed locally or nationally. If the prospects of the airfields do improve as the volume of traffic rises, bidders will emerge. The logical conclusion is that the government should not attempt to sell these assets at this time.

Air transport is not the only arena in which recent official decision have aroused controversy. A further example is the Secretary of State's decision to renage on the 1979 Conservative Party manifesto pledge of "moving closer to road equivalent tariff" (RET). RET is a means of subsidising ferry fares to bring prices for a sea journey down to the cost of a similar journey by road. The scheme was first introduced in Norway and championed in this country by the Highlands and Islands Development Board with subsequent support from the all party Scottish Select Committee and the EEC. The decision not to implement RET for the Scottish Islands has been greeted by almost universal condemnation although it was or should have been widely expected.

In March 1980, the Scottish Office issued a consultative paper, **Sea Transport to the Scottish Islands** which contained a distinctly cool assessment of RET. Many of the points were reiterated by the Secretary of State on making his recent announcement; Firstly, that more remote islands would gain proportionately less from RET than those closer to the mainland because the present fares structure implies a higher price per mile on shorter hauls. Secondly, that implementation would result in higher fares on several services. The government's critics point out that this is simply a function of the form of RET adopted and that other bases for calculation would remove this anomaly. Thirdly, that the structure of the RET subsidy would undermine the financial discipline on ferry operations because prices would be determined by the RET calculation and government left to meet the deficit. This argument is fallacious because it is not difficult to envisage mechanisms to overcome this problem although it would imply an overall government view on the level of service. However the block grant that operates at present has similar undesirable implications to RET. Fourthly, Mr Younger is reported to have argued against implementation because it would stimulate demand and increase the need for new investment in shipping capacity. Yet at the same time present subsidies were increased by 9.9% and new investment in the Highland fleet announced. Clearly, subsidies by their nature increase demand by lowering the price to final consumers and this argument could equally apply to the present arrangements. Increased demand in the Shipbuilding sector would not necessarily be a bad thing during the present recession. Finally, it is suggested that the cost of introducing RET would be prohibitive. The present subsidy is equivalent to 62% of the cost of RET implementation.

Road Equivalent Tariff is an appealing type of subsidy which is easy to understand and equitable in operation. All subsidies create distortions and the present arrangements effectively favour more remote communities whilst RET treats all equally. It is legitimate and possibly desirable for a government to pursue policies designed to discriminate in favour of relatively more remote areas. However this aspect of RET was widely known and accepted by Islanders for as long as the scheme has been seriously canvassed. It is curious that it took the Scottish Office until 1984 to decide on this matter given the negative attitude adopted in their 1980 consultative document. It is widely believed that the increased cost of RET was a decisive factor and that the Treasury would not sanction the additional expenditure. This could be viewed as further evidence to support the view that the Scottish Office is a "declining asset" in the present political environment.

CENTRAL AND LOCAL GOVERNMENT

The reduction of public expenditure has been a key element in the Thatcher Administration's economic strategy. In February and March 1984, three reports by HM Treasury throw some light on past performance and future plans in this field. **The Government's Expenditure Plans, 1984-85 to 1986-87** (Cmnd 3143 - 1 and II), **Financial Statement and Budget Report**, and **The Next Ten Years: Public Expenditure and Taxation into the 1990s** (Cmnd 9189), contain some interesting factual information.

First of all, there is a subtle change in the presentation of the data. In the past, public expenditure planning was carried out in volume terms. By using a constant price base, government could plan the volume of goods and services it would provide. This method proved unsuitable for the control of public expenditure in periods of high inflation. Accordingly, in the first instance a cash limit was imposed, adding a forecast for inflation to the volume figures. Eventually, the volume figures were discontinued, and straight cash limits introduced.

However, cash limits on their own make it difficult to discern what is happening to government's programmes in terms of the level of services being provided. The government's answer to this, having chopped volume planning, is to introduce **real** (or **cost**) **terms**. These are equal to cash expenditure, excluding the effects of any rise in average GDP prices. Whilst this allows a more realistic analysis of spending policies and priorities, it has one major weakness. It means that the volume of government spending is assessed using average price movements in the economy as a whole. Thus whilst, as the Green paper states, cost terms are a useful measure of expenditure for comparisons over time, and for medium and longer term public expenditure projections, it does not provide a real measure of the amount of service delivered by a programme. As prices move at different rates between individual government programmes, and between public and private sectors, what this means is that changes in cost terms expenditure may be more or less than changes in the amount of service delivered, depending upon both relative price changes and efficiency gains.

Public expenditure since 1978-79, has grown by 7% in real terms. However, this global figure conceals the major changes which have occurred in expenditure priorities in that period. With the emphasis on reducing government borrowing the PSBR has fallen from 5.3% of Gross Domestic Product to 3.25%, consequently, despite the rise in North Sea tax revenues, the tax burden has risen from 34% to 39% of GDP.

It is interesting to note that local authority expenditure has risen quite modestly in comparison to other mainstream programmes. The government's problems in controlling public spending really stem from two sources. First of all, their own policy commitments on defence and law and order. The 1979 manifesto commitment to **increase** defence expenditure by 3% per annum in real terms has been fulfilled. In addition there are now 12,000 **more** policemen in employment, at considerably increased cost. Together, the commitments meant that 15% of total spending in 1979 terms was not only exempt from cutting, but programmed to grow, with the result that these components now account for 18% of public expenditure. Secondly, social security spending, which accounts for 30% of public expenditure, is demand led, ie up-take is out of central government's control, except for decisions about benefit levels and entitlement to benefit.

Approximately 50% of public expenditure was thus effectively exempt from expenditure cuts, and in fact, destined to grow. it is unsurprising, therefore, that public expenditure targets were not met. This would have required quite severe reductions in the health and local government programmes which together account for about 40% of public spending.

The future strategy of the government embodies a significant change of emphasis, from **reducing** public expenditure to the need for firm control to **keep it broadly stable** over the next three years. It is still part of the government's received wisdom that public spending should consume less of national resources, but this is now to be achieved by holding public spending still, whilst achieving economic growth. This seems a little at odds with earlier pronouncements that expenditure had to be cut to allow tax reductions which would provide the incentives necessary for economic growth. Now the strategy appears to be to hold present levels of spending and taxation, then achieve economic growth which will allow tax reductions in the future.

In the Green Paper, the government assumes that the economy will grow by about 2.25% a year for five years. That would indeed be a considerable achievement. The prospects for holding public expenditure over coming years are better than in 1980. The nationalised industries are in a sounder financial position, unemployment has stabilised, and population trends are not too disturbing in the medium term. The growth of the elderly will be matched by declining numbers of school pupils in the immediate future. In the longer term, however, both groups will be growing, putting increased pressure on social programmes.

There are some worrying factors. First of all, economic recovery was in part due to the growth in capital spending and additional government borrowing in 1983-84. Second, if as widely expected, the US budget deficit is reduced after the 1983-84 Presidential Election, that too could affect demand, although it should reduce interest rates. Third, revenues from North Sea Oil are assumed to reach a peak in 1984-85, and to fall from 3% of GDP to 1.5% of GDP by 1993-94. Fourth, as the government nears another General Election, the political pressures for greater spending will build up. Spending Ministers have so far combined fairly successfully to resist Mr Lawson's axe. Th longer retrenchment continues, the more difficult they will be to restrain indefinitely.

The strategy has important implications for different programmes. Defence and law and order will be maintained rather than allowed to grow. The assumption again is that local government will bear the brunt of reductions. The government's local government strategy in the main has succeeded in reducing capital expenditure, increasing council house rents, and changing the balance of financing from central to local taxation. There is no sign yet of any major reduction in current expenditure, although it has clearly not been growing in the way government Ministers have suggested. Nor is it out of control. The outturn figures for 1983-84 again show the total falling within the public expenditure planning total, and the income from rates being less than anticipated. In Scotland, the planned figure for the current year is £56 million less than last year in cash terms, implying a considerable cut in real terms. The scale of reduction required in capital expenditure is more modest (2%-3%) and more easily achievable.

Overall, there is a clear change of emphasis in government strategy over public expenditure. The reality is that it is easier to contain than to reduce. If the other elements of the economic strategy are not delivered, however, then expenditure decision making in Cabinet could well become tough indeed.

The Labour Market

EMPLOYMENT

The most recent estimates of the number of employees in employment have been classified according to the 1980 revised Standard Industrial Classification. Table 1 records employment in Scotland and England and Wales for the period December 1982 to December 1983.

Table 1 Employees in Employment in Scotland and in England and Wales (000s)

			Females	
Scotland	**Total**	**Males**	**All**	**Part-time**
Dec 1982	1,907	1,063	843	343
Mar 1983	1,883	1,050	833	340
Jun 1983	1,902	1,056	846	349
Sep 1983	1,899	1,054	846	349
Dec 1983	1,890	1,040	850	357
England and Wales				
Dec 1982	18,579	10,575	8,005	3,458
Mar 1983	18,328	10,477	7,882	3,405
Jun 1983	18,433	10,444	7,989	3,494
Sep 1983	18,483	10,488	7,994	3,475
Dec 1983	18,482	10,421	8,061	3,566

Source: Department of Employment Gazette

It remains difficult to find evidence in the employment statistics that Scotland is emerging strongly from recession. In the last quarter of 1983, total employment declined by 9,000 (0.5%) whereas the fall in England and Wales was negligible. Over the year to December 1983, Scottish employment decreased by 17,000 (0.9%) compared with a decline of 97,000 (0.5%) in England and Wales. Looking at employment across the British standard regions, only one region, the South-West, actually recorded an increase in employment over the year to December 1983. Of the remaining regions, only three registered relatively more severe declines in employment than Scotland over the same period: Yorkshire and Humberside (1.1%), North-West (1.1%) and North (2.3%). In contrast to the Scottish experience, however, in all these regions employment fell only in the first half of 1983, with the second half of 1983 showing stable or rising employment.

The pattern of employment change over the year to December 1983 was broadly similar in all of the standard regions. All recorded declines in manufacturing employment offset to varying degrees by increases in service sector employment. In Scotland, contraction of manufacturing employment was particularly severe, its 4.8% decline over the period exceeded only by a 6.1% reduction in employment in the manufacturing sector of North region. The main contribution to the manufacturing employment decline in Scotland in the year to December 1983 came from two broad industry groups: metal manufacture and chemicals: and metal goods, engineering and vehicles, (see Table 2). Together these industries, which account for approximately 12% of total employment, lost 17,000 jobs over the period. This primarily reflects continuing low levels of activity, particularly in the production of metal and metal goods and in mechanical engineering.

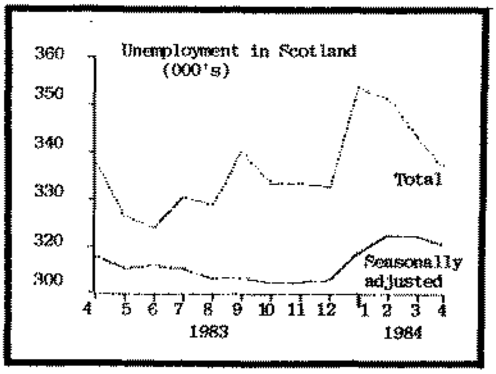
As might be expected from continued industrial stagnation during the first nine months of 1983, male employment in Scotland declined by a further 23,000 or 2.2% during the year. The contraction of full-time jobs for women was also severe. Approximately 7,000 (1.4%) full-time female jobs were lost over the same period, though female part-time working increased by 14,000. By December 1983, the female/male employment relative stood at .82 compared to .74 in December 1979.

Table 2 Employment in Scotland

	Nos Employed (000s)	% of Total	% Change in Nos Employed Dec 82-Dec 83	Sept 83-Dec 83
Agriculture Forestry & Fishing	42	2.2	-4.5	-4.5
Energy & Water Supply	73	3.9	-1.4	0.0
Metal Manuf. & Chemicals	55	2.9	-6.8	0.0
Metal Goods, Eng. & Vehicles	181	9.6	-6.7	-2.2
Other Manuf.	205	10.8	-1.9	0.0
Construction	126	6.7	-2.3	-0.8
Wholesale Distr., Hotels, Catering	178	9.4	+2.3	-5.3
Retail Distr.	198	10.5	+2.6	+6.5
Transport & Communication	117	6.2	-2.5	0.0
Banking, Insce., Finance	129	6.8	+0.8	-0.8
Public Admin., Defence	174	9.2	+1.8	0.0
Education, Health & Other Services	412	21.8	+0.2	-0.7
Total	1890		-0.9	-0.5

UNEMPLOYMENT

Total registered unemployment in Scotland in April 1984 stood at 337,246 or 15.1% of all employees, a decrease of 6,060 over the March figure and virtually the same as the total for the corresponding month last year. Included in the April figure were 17,286 school leavers compared with 19,236 the previous month. Seasonally adjusted unemployment appeared to have stabilised at approximately 312/3 thousand in the second half of 1983. Since then, the unexpectedly large increases which occurred at the beginning of 1984 have not yet been reversed and by April seasonally adjusted unemployment excluding school leavers was 320.3 thousand or 14.3% of all employees.



Although seasonally-adjusted unemployment has fallen slightly for the last two consecutive months, there remains the possibility that unemployment has resumed its upward path. The latest available industrial output indices for Scotland, for the period to September 1983, have been very disappointing. Recent employment trends, particularly in manufacturing, have not been encouraging and seasonally-adjusted vacancy figures have shown little change since December. Against such a background, the possibility of prolonged and more widespread industrial action associated with the miners' dispute does not augur well for the labour market.

In response to the unemployment situation, the number of people assisted by the government's special employment and training measures remains high. It is difficult to be precise about the numbers actually employed on such schemes given the MSC practice in the case of some schemes of recording the cumulative number of places approved or applications received rather than the numbers in post. It is estimated however that, as a result of these measures, over 60,000 people in Scotland were in jobs, training or early retirement in March instead of claiming unemployment benefit. In Great Britain as a whole, the measures in March covered 645,000 people, 455,000 of whom would otherwise probably have been unemployed.

During the period October 1983 to January 1984 a total of 97,881 claimants left the Scottish register whilst 123,173 joined. Both figures are approximately one third of the total stock count for January 1984 indicating that despite continued high unemployment, there is a considerable rate of turnover in the labour market. This should not be interpreted to mean that the average expected unemployment experience is one of frequent though short spells of unemployment. Table 3 shows two measures, the median duration of those on the register at 8 January 1984 and the median duration of completed spells of unemployment in the period October to January 1984. The figures for the former, excepting that for 16 year olds, are consistently far in excess of those for the other measure. Indeed in all age groups over 18 years old, the median duration of registration of current claimants exceeds six months, with the figure increasing with the age of the unemployed person. Conversely, with the exception of 19 year olds, whose experience is particuarly unfavourable, the median duration of completed spell varies little with age and averages approximately 3 months.

Table 3 **Median Duration of Unemployment (Weeks)**

	Claimants registered (continuing spells)		Claimants leaving (completed spells)	
Age	**Male**	**Female**	**Male**	**Female**
16	2.5	2.3	7	7
17	22.4	20.3	11	10
18	29.9	24.9	16	12
19	36.7	32.4	19	16
20-24	32.7	25.2	13	15
25-29	37.7	24.0	12	19
30-34	43.5	24.2	11	14
35-39	47.9	24.7	11	12
40-44	52.0	31.1	10	12
45-49	57.4	38.5	12	14
50-54	59.1	48.6	11	12
55-59	53.2	67.3	14	15
60-64	28.3	-	20	-
Total	37.7	25.1	12	12

Primary Source: Department of Employment

Table 3 provides evidence of a major problem of long term unemployment in Scotland which observed high rates of turnover have done little to alleviate. Those leaving the register are atypical in that they tend to have experienced a spell of unemployment which is very much shorter than that experienced by those who remain as claimants. The problem of long-term unemployment will remain until the overall stock of unemployed itself shows a vast reduction.

Table 4 provides an indication of the future prospects of those currently unemployed. It shows the probability of leaving the register during the months of October 1983 through to January 1984. It is calculated as the off-flow for this period divided by the average stock count, and assumes that each individual has an identical probability of leaving the register. (It should be noted, however, that not all those leaving the register have necessarily found employment). Sixteen year olds appear to have a particularly favourable position, reflecting the impact of YTS over this period. However, beyond this age group, the probability of leaving unemployment declines with age. This is to be expected given the figures reported in Table 3 for the median duration of those on the register, which also deteriorate with age. Overall, about one person in four could expect to leave the register during this period. Females enjoy an advantage in most age groups, an observation which is consistent with the results reported in Table 3, for the median duration of current spells of unemployment. This can, in part, be explained by the observed overall increase in female employment in the recent past.

Table 4 **Probability of Leaving the Register During October 1983 to January 1981**

Age	**Male**	**Female**	**All**
16	0.53	0.52	0.52
17	0.30	0.39	0.34
18	0.25	0.34	0.29
19	0.26	0.33	0.29
20-24	0.29	0.38	0.32
25-29	0.27	0.37	0.31
30-34	0.26	0.40	0.30
35-39	0.30	0.41	0.28
40-44	0.23	0.34	0.26
45-49	0.21	0.27	0.23
50-54	0.16	0.20	0.17
55-59	0.11	0.12	0.11
60-64	0.30	-	0.30
All	0.25	0.35	0.29

Primary Source: Department of Employment

Overall, the figures in these tables provide little comfort. Unemployment spells of long duration continue to present a major problem, and one for which there appears to be no real prospect of improvement in the near future. In addition, this problem is greatest amongst adult males, tending to increase in severity with age. Selective measures to help this particular group of workers are most urgently required.

Why is Unemployment so Slow to Fall?

Scottish and British registered unemployment stand at much the same levels as a year ago even though the intervening months witnessed rapid growth in GDP. Why has unemployment been so slow to fall? A number of explanations can be advanced.

To begin with, it is **registered** unemployment which has remained rather stable. The more inadequate the register as a measure of those out of work, the less sensitive it will be to any change in the demand for labour. Administrative changes made to the definition of the register in the Autumn of 1982 had the politically desirable effect of reducing the headline total by some 200,000 nationally. The wheel has now come full cycle, the augmented class of non-claimant unemployed can increasingly fill jobs with no effect on the headline total.

But are there that many new jobs to fill anyway? Employment statistics are more than usually deficient at present given the abolition of the Census of Employment, and the much trumpeted increase of 200,000 in employment in the final three quarters of 1984 is based more on creative accounting than on actual evidence. As argued in the section on the British Economy, rather implausible assumptions are required for job creation on such a scale **not** to have a marked effect on the numbers registered as unemployed. No such effect can be discerned, which must heighten scepticism about any supposed recovery in employment during 1983.

But is it plausible to suggest that the British economy could expand at an annual rate of 3% without generating a sustained increase in employment? Yes, particularly in the early stages of an upturn, and certainly in the early stages of this particular upturn. First the general, then the specific: Recoveries are typically initiated by a slowing down or cessation of destocking. This process removes, in whole or in part, a large negative element from GDP and marks the return to positive rates of growth. Yet of itself the ending of destocking creates no new jobs. It merely reduces the pace of job losses. The British recovery from recession was a typical one, with considerable reliance on the turnaround in the stock cycle.

Now the specific: The scale of redundancies since 1979 suggested that little labour was being hoarded during the downswing of the cycle, certainly far less than in previous cycles. However the rapid pace of productivity growth since 1981, at an annual pace in excess of 6% in manufacturing, suggests that a greater degree of hoarding took place than earlier anticipated. In the upturn additional output is being produced by using hoarded labour more efficiently, with little necessity to hire additional employees. For those firms which did not hoard, overtime hours have proved an attractive way of expanding output in recent quarters.

In summary, registered unemployment has been slow to fall because

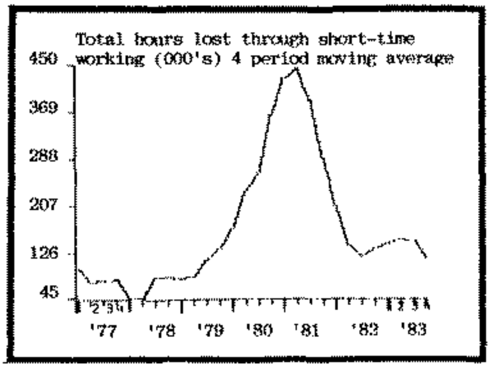
(a) the register has become an increasingly inadequate measure of the numbers out of work and increasingly insensitive to changes in the demand for labour.

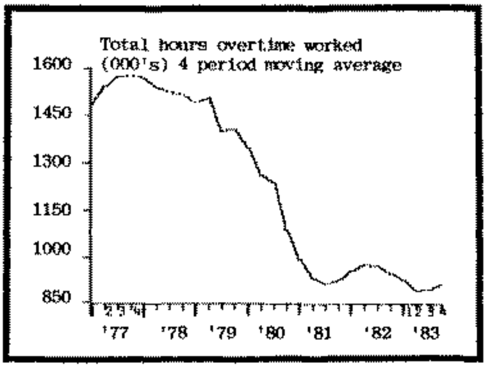
(b) the early stages of recovery rely heavily on an end to destocking, which of itself creates no new jobs, and

(c) it is doubtful if the underlying recovery in employment during 1983 was as strong as that implied by official statistics.

Short-time and Overtime Working

Total hours lost through short-time working in Scotland during the fourth quarter of 1983 amounted to 50.8 thousand. This is the lowest figure recorded since the second quarter of 1979. On a seasonally adjusted basis (a 4-period moving average), the total number of hours lost was 114.6 thousand, but this too represents a marked improvement on previous quarters' figures. The plateauing in short-time working observed during the third quarter of 1983 would therefore seem to have been a temporary faltering. It now appears that the Scottish figures reflect the British wide pattern of some underlying improvement in labour market conditions. The levels of short-time working recorded at the close of 1983 are of the same order of magnitude experienced in mid-1979 when the last cyclical peak occurred. It does not follow that another peak occurred in Scottish activity at the turn of the year, the behaviour of industrial production and unemployment suggest the opposite. What the short-time figures do imply is that the process of labour dishoarding in Scottish industry is coming to an end and that some moderate recovery in employment may be imminent.





Total hours of overtime worked in Scotland during the fourth quarter of 1983 increased over the previous quarter's figures. On an unadjusted basis, total overtime hours worked stood at 995.8 thousand, an increase of a little over 100 thousand hours on the previous quarter. On a seasonally adjusted basis the increase is less marked, the fourth quarter's figures being only 17 thousand greater than those of the previous quarter. While these overtime figures show less signs of recovery in labour market conditions than do the short-time working data, this is only to be expected. An increased demand for labour services is likely to be first met from a reduction in short-time working followed only after a lag by an increase in labour utilisation and overtime. It is to be expected, therefore, that the overtime series will not only continue their upward trend in coming months but that the pace of improvement too should quicken.

Redundancies

Data for 1983 are being completely revised by the MSC. The amended series will be analysed in the August Commentary.

Industrial Relations

The dispute in the coal industry has dominated Scottish industrial relations over the last two months, and has raised a number of legal and non-legal issues of major importance with implications far beyond the coal industry. Amongst the latter are the future of Ravenscraig, (See Economic Perspective), the optimal sourcing of electricity generation, interunion solidarity, and the willingness of union members to implement measures about which they have not been consulted. On legal issues suffice it to say here that while strict control of picketing may be the most important factor in deciding the outcome of the coal dispute, the procedures adopted in the process of obtaining this control have raised controversial matters which are discussed more fully in the section on British industrial relations, (See British Economy).

Beyond the coal industry, industrial relations changes in Scotland during the last quarter do not share any obvious pattern. A four-week strike at Weir Pumps in Glasgow over pay and productivity ended with limited workforce gains; and a two-week strike at the Scottish Bus Group, also over pay, ended with some concessions. There have been strikes of civil servants, at the Crown Agents in East Kilbride, and of a small group of engineers in the jute industry in Dundee.

The coal industry apart, perhaps the most significant Scottish development during the quarter was the agreement concluded in April between Scott Lithgow and the unions concerned, covering changes in working methods for the hourly paid workforce. In January, British Shipbuilders concluded an Enabling Agreement on working methods which subsequently allowed Scott Lithgow, still part of British Shipbuilders, to make a local agreement on the same issues. The new agreement, made in April, with the yard under private ownership, covers much the same ground, providing for inter-changeability within the steelwork trades, within the outfitting trades and between ancillary workers. The agreement also embodies provisions for shift work and for the introduction of new machines or aids to production. It is an explicit condition that there will be - in the words of the Agreement - "total acceptance of such aids".

The working arrangements used in Shipbuilding have changed greatly in recent years, with the process of change speeding up in the last six months. The traditional sequential process of steelwork followed by outfitting has given way to the fitting together of prefabricated sections, which in turn has led to the development of an advanced pre-outfitting system. Under such a system, sections may have much outfitting work done on them while steelwork is being completed, making composite work groups and inter-changeability of labour essential. Acceptance of new techniques of production will not of itself ensure the success of the new agreement if efficient management and planning do not also exist.

Another industrial relations problem in Scotland may surface with the announcement shortly of BL's Corporate Plan and its implications for the truck assembly and engine-making plant at Bathgate, (See Industrial Performance; Transport Equipment). This may produce another Scott Lithgow type situation with the possibility of closure and the loss of the existing 2,000 jobs, or a much reduced plant taken over by a private buyer. Whatever happens, a major dispute may not be far away.

Two wider industrial relations issues are likely to have implications for Scotland. One is the possibility of disruption at Scottish ports if changes are introduced in the present National Dock Labour Scheme. This scheme, which covers only about 14,000 of the 53,000 employees at Britain's ports, has come under increasing criticism for providing a significant charge on port authorities, a number of whom have sizeable debts. The government has recently been unwilling to meet some of these debts while the National Dock Labour Scheme continues in its present form. What changes, if any, will be brought into the scheme are uncertain. Nevertheless, the sitation here remains potentially dangerous.

The other problem outstanding is the present disagreement between British Rail and the rail unions over pay and productivity. British Rail want to tie a pay offer to the implementation of specific productivity changes; the unions want pay and productivity to be dealt with separately, and are concerned that any agreement might allow changes in manning arrangements for trains to be introduced at local level, where union influence over such arrangements may be limited.

Regional Review

REGIONAL LABOUR MARKETS

In the absence of any reliable estimates of regional employment, the analysis of this section is restricted to various measures of unemployment and unemployment experience. As Table 1 shows, unemployment continues to pose major problems for a majority of Scottish regions. While the April figures show an improvement over those reported in the last **Commentary**, much of this can be attributed to seasonal influences. At the Scottish level there has been no overall

Table 1 : Unemployment and Vacancies by Scottish Regions, April 1984

	UNEMPLOYMENT				VACANCIES	
	Total Apr 84	Change Since Jan 83	Rate % Apr 84	Rate % Apr 83	Vacancies 30.4.84	Change since Jan 83
Borders	3358	-547	8.6	15.8	372	- 27
Central	18594	+ 79	15.5	15.8	954	62
Dumfries & Galloway	7465	- 69	13.5	13.7	386	- 26
Fife	18422	+527	13.5	13.2	1050	56
Grampian	16078	-663	8.6	9.2	2027	-428
Highland	10815	-142	14.1	14.2	1090	275
Lothian	42903	- 28	12.4	12.4	2113	-225
Strathclyde	190823	+1191	17.5	17.4	7726	1870
Tayside	25415	-185	14.51	14.6	684	-581
Western Isles	1852	- 87	21.5	22.5	159	119
Orkney	764	- 31	12.0	12.5	67	28
Shetland	757	-100	6.5	7.3	65	5
Scotland	**337246**	**- 55**	**15.1**	**15.1**	**16693**	**-687**

Notes: All figures are seasonally unadjusted. Unemployment totals and rates include school leavers. Vacancies include those notified at Careers Offices and the Employment Services Division. This leads to double counting and thus a marginal overestimation of the true number.

Source: Department of Employment

improvement during the past year with April's headline figure of 337,246 only 55 lower than the corresponding total a year earlier. Three regions, Strathclyde, Fife and Central, experienced increases in unemployment over the period sufficient to outweigh what was generally only a marginal improvement in all other regions with the exception of the Borders where the unemployment total fell by 14%.

The Western Isles with an unemployment rate of 21.5%, Strathclyde (17.5%) and Central (15.5%) continue to be the worst hit areas, and are the only regions with rates in excess of the average for Scotland as whole. Not surprisingly, Shetland (6.5%), Grampian (8.6%) and the Borders (8.6%) are the areas where the recession has had least effect in unemployment terms.

Total Scottish vacancies fell by 687 over th year to April 1984, but this aggregate figure again masks a variety of regional experience. In percentage terms the largest changes were in the Western Isles (+34%) and Strathclyde (+32%). In all, 7 out of 12 regions experienced a rise in the number of unfilled vacancies over the year to April 1984.

Once the inadequacies in the data are recognised the unemployment vacancy ratio is a useful guide to the state of the labour market. The ratio indicates the number of unemployed claimants for each unfilled vacancy. As the number of reported vacancies will underestimate the actual total, it must be borne in mind that the U-V ratio will itself be an overestimate. However, there is no reason to expect regional variation in the implied bias and so it is useful to compare such ratios across regions.

Table 2 lists U-V ratios for the Scottish regions in April of this year, and a comparable figure for a year earlier. Over the year, four regions experienced an increase in this ratio, Dumfries and Galloway, Grampian, Lothian, and Tayside. In April 1984 Strathclyde, Tayside and Lothian, had a ratio in excess of the figure for Scotland as a whole. The tendency is for regions with relatively high unemployment levels to experience a relatively high unemployment vacancy ratio, confirming the observation of the last **Commentary**.

TABLE 2

Unemployment - Vacancy Ratios by Region

	Apr 1984*	**Apr 1983**
Borders	9.0	9.8
Central	19.5	20.8
Dumfries & Galloway	19.3	18.3
Fife	17.5	18.0
Grampian	7.9	6.8
Highland	9.9	13.4
Lothian	20.3	18.4
Strathclyde	24.7	32.4
Tayside	37.2	20.2
Western Isles	11.6	48.5
Orkney	11.4	20.4
Shetland	11.6	14.3
Scotland	**20.2**	**19.4**

* April 1984 figure calculated using vacancies unfilled on 30 March 1984

Source: Manpower Services Commission

Figures from the Department of Employment's computerised count of unemployed claimants make it possible to calculate a number of measures of unemployment experience, both actual and expected. In the last **Commentary** it was observed that the Scottish regions could be divided into three groups depending on how they "performed" in terms of these measures. To avoid repetition, the following analysis concentrates on the experience of Strathclyde, Highland and Grampian as these are representative of the worst, median and best categories of region respectively. Where possible, figures are given for all regions although comment is restricted to the aforenamed.

It is necessary to employ a number of simplifying assumptions to calculate the measures of unemployment experience discussed below. The necessary assumptions are as follows:

- the labour force is homogeneous in all other respects than age and sex.

- that no individual entered, left and subsequently rejoined the register during the quarter, and

- unemployment was constant during the quarter at the January 1984 level.

TABLE 3 MEDIAN DURATION OF COMPLETED SPELLS (WEEKS)

	Age 16	17-18	19	20-29	30-39	40-49	50+	All Ages
Scotland								
Males	7.14	12.83	18.62	12.60	11.01	10.97	14.02	11.68
Females	7.22	10.98	16.25	16.11	13.15	12.42	13.56	12.29
Male and Female	7.17	11.85	17.52	13.86	11.62	11.33	13.93	11.91
Strathclyde								
Males	7.50	16.44	24.36	16.35	12.30	12.54	14.66	13.40
Females	7.26	12.38	18.87	17.69	14.95	13.81	14.01	13.35
Male and Female	7.39	14.10	21.66	16.90	12.86	12.78	14.53	13.38
Highland								
Males	6.22	9.59	10.32	9.83	9.36	8.81	11.31	9.41
Females	6.35	8.49	9.81	10.20	8.96	9.18	13.00	9.04
Male and Female	6.29	8.92	10.03	9.98	9.26	8.93	11.55	9.27
Grampian								
Males	5.30	7.87	7.94	6.60	5.87	6.75	9.85	6.78
Females	5.58	6.65	8.80	12.20	10.50	7.83	12.64	9.58
Male and Female	5.38	7.27	8.24	8.13	6.62	7.05	10.12	7.47

TABLE 4 MEDIAN SPELL DURATION OF THOSE CURRENTLY UNEMPLOYED (JANUARY 1984)

	Age 16	17+18	19	20-29	30-39	40-49	+50	Total
Scotland								
Males	2.49	25.39	36.74	34.46	45.52	53.81	48.00	36.63
Females	2.31	22.75	32.55	24.76	24.33	34.68	57.87	25.15
Male and Female	2.40	24.23	35.06	30.12	37.08	46.65	50.03	32.33
Strathclyde								
Males	2.19	28.50	45.29	41.54	56.70	67.65	55.34	43.64
Females	1.99	25.31	37.64	26.84	25.94	38.00	64.22	27.81
Male and Female	2.05	27.03	41.96	35.37	45.12	57.77	57.31	37.40
Highland								
Male	1.90	16.37	17.80	16.85	22.06	26.07	41.29	21.51
Female	3.21	15.07	18.53	18.60	19.63	22.75	48.00	18.69
Male and Female	2.12	15.73	18.18	17.67	21.19	25.09	42.47	20.38
Grampian								
Male	2.26	16.07	15.27	16.85	20.72	27.43	38.59	20.88
Female	1.88	16.79	20.67	20.05	22.35	30.33	42.70	20.71
Male and Female	1.96	16.41	17.84	18.38	21.29	28.44	39.47	20.81

Tables 3 and 4 tabulate two differing measures of the duration of unemployment. Table 3 reports the median duration of a completed spell of unemployment during the last quarter of 1983 while Table 4 reports the median duration of registration of those still on the register at January 1984. In more technical terms, the tables respectively record the duration of completed and of uncompleted spells of unemployment. On the former measure, the regions follow the expected pattern with the duration of completed spells in Strathclyde being much greter than in the other two regions. Its figures are on average one and a half to twice those of Highland which itself performs better than Grampian on this measure. Only Strathclyde records figures worse than those for Scotland as a whole. Females leaving the register have experienced shorter spells than males in Strathclyde, whereas in Grampian the opposite is the case. There is little difference between the sexes in Highland. Nineteen year olds again stand out consistently across the regions as experiencing longer completed spells.

The pattern that emerges from Table 4 is similar. Again Strathclyde performs very badly, on average those on the register had already been unemployed for 37.4 weeks. The problem of long spells of unemployment becomes more acute as age increases, with the older age groups suffering a relatively greater disadvantage in Highland and Grampian. Female experience is relatively better than males in Strathclyde and Highland, the reverse being the case in Grampian.

There is no single explanation of these differences. The very much higher unemployment rate in Strathclyde explains much of its relatively bad performance. However, a high level of unemployment may not be a sufficient reason to expect long durations. Despite having an unemployment rate almost twice that of Grampian, Highland's duration figures are not markedly dissimilar. This implies some other factor acting to reduce the figures for Highland and/or increase them for Grampian. One possibility is that differences in industrial structure cause a greater seasonal variation in unemployment in the Highlands. This would tend to depress the duration figures at the turn of the year.

An obvious explanation of the sex differences in unemployment experience between the regions can also be found by reference to industrial structure. Females in Grampian enjoy a more favourable unemployment experience than those elsewhere, but, by contrast with other regions, fare relatively worse than Grampian males. This is mainly due to the nature of employment opportunities in Grampian which are biassed towards oil-related industries, which tend to be more suited to males. Elsewhere, as noted earlier, there has been a proportionally larger growth in female employment.

Regional probabilities of becoming unemployed during the last quarter of 1983 are shown in Table 5. The inverse of this measure, the frequency with which an individual can expect to experience a spell of unemployment is also shown. These measures are calculated using the labour force estimates implicit in the regional unemployment rates reported by the Dept. of Employment.

TABLE 5

	Quarterly Probability of Becoming Unemployed	**Expected Frequency of Unemployment Spells (mths)**
Scotland	0.055	54.9
Borders	0.041	72.4
Central	0.061	49.0
Dumfries & Galloway	0.053	56.6
Fife	0.057	52.5
Grampian	0.051	59.0
Highland	0.077	38.8
Lothian	0.047	63.4
Strathclyde	0.056	54.1
Tayside	0.057	52.9
Western Isles & Shetland	0.061	49.6

Primary Source: Dept. of Employment

On both measures Highland records the worst experience over the quarter. This may again be due to seasonal variation in employment levels. Strathclyde's figure is also greater than the Scottish average. There is quite marked variation in the expected frequencies of unemployment spells. The typical member of the labour could expect to experience a spell of unemployment every 39, 54 or 59 months in

TABLE 6 PROBABILITY OF LEAVING REGISTER DURING OCTOBER 1983–JANUARY 1984

	Age 16	17+18	19	20–29	30–39	40–49	+50	Total
Scotland								
Males	0.50	0.27	0.24	0.27	0.25	0.21	0.16	0.25
Females	0.48	0.37	0.32	0.37	0.39	0.31	0.16	0.34
Male and Female	0.49	0.31	0.27	0.30	0.28	0.23	0.16	0.28
Strathclyde								
Males	0.47	0.24	0.21	0.24	0.21	0.19	0.14	0.22
Females	0.46	0.33	0.30	0.36	0.40	0.30	0.15	0.33
Male and Female	0.47	0.28	0.24	0.28	0.25	0.21	0.15	0.25
Highland								
Males	0.48	0.33	0.40	0.40	0.32	0.27	0.19	0.32
Females	0.44	0.42	0.34	0.33	0.35	0.23	0.18	0.33
Male and Female	0.46	0.37	0.37	0.37	0.33	0.26	0.19	0.32
Grampian								
Males	0.64	0.52	0.45	0.54	0.47	0.40	0.26	0.45
Females	0.47	0.55	0.56	0.42	0.43	0.44	0.20	0.43
Male and Female	0.56	0.54	0.50	0.49	0.46	0.41	0.25	0.44

TABLE 7 EXPECTED DURATION OF UNEMPLOYMENT SPELL (MONTHS)

	Age 16	17+18	19	20–29	30–39	40–49	+50	Total
Scotland								
Males	6.0	11.1	12.5	11.1	12.0	14.3	18.8	12.0
Females	6.2	8.1	9.4	8.1	7.7	9.7	18.8	8.8
Male and Female	6.1	9.7	11.1	10.0	10.7	13.0	18.8	10.7
Strathclyde								
Male	6.4	12.5	14.3	12.5	14.3	15.8	21.4	13.6
Female	6.5	9.1	10.0	8.3	7.5	10.0	20.0	9.1
Male and Female	6.4	10.7	12.5	10.7	12.0	14.3	20.0	12.0
Highland								
Male	6.2	9.1	7.5	7.5	9.4	11.1	15.8	9.4
Female	6.8	7.1	8.8	9.1	8.6	13.0	16.7	9.1
Male and Female	6.5	8.1	8.1	8.1	9.1	11.5	15.8	9.4
Grampian								
Male	4.7	5.8	6.7	5.6	6.4	7.5	11.5	6.7
Female	6.4	5.5	5.4	7.1	7.0	6.8	15.0	7.0
Male and Female	5.4	5.6	6.0	6.1	9.6	7.3	12.0	6.8

Highland, Strathclyde and Grampian respectively.

Another useful guide to labour market experience, the probability of leaving the unemployment register during the October to January period, is shown in Table 6. This probability is calculated as the off flow during that period divided by the stock figure. Again, its inverse, shown in Table 7, is of interest, since it represents the length of unemployment spell those currently on the register can expect to experience.

For Scotland as a whole, the probability of leaving the register diminishes with age, and all three regions also follow this pattern. Strathclyde is again the region where prospects for the unemployed are bleakest. An overall probability of 0.25 implies an average spell of unemployment of 1 year. This can be compared to Highland at 0.32 (expected duration of 9.4 months) and Grampian at 0.44 (expected duration of 6.8 months). The familiar pattern emerges when comparing the relative position of the sexes. In Strathclyde, females are better placed than their male counterparts, males are better off in Grampian and there is little overall difference in Highland.

The figures for expected duration in Table 7 exceed those for median duration reported in Table 4, simply because the former represents the spell length which a newly unemployed person can expect whilst the latter measures the median length of unemployment experienced to date by those currently on the register.

Overall, the analysis confirms the conclusion of the last **Commentary.** High unemployment levels tend to be positively correlated with poor performance on the other measures of unemployment experience. Thus, those on the register, and indeed, in the labour force, in Strathclyde can expect more frequent spells of unemployment, and spells of longer duration than claimants in Grampian, for instance.

School leaver unemployment and YTS

Unemployment amongst school leavers for April shows little change compared to a year earlier. The total of 17,286 is just 1,588 fewer than in April 1983, a fall of just over 8%. However, it represents a continuation of the trend observed in the last **Commentary.** The numbers fell for all regions with the exception of Dumfries and Galloway and Shetland. When read in conjunction with the reported rate of take up of places on YTS these figures remain disappointing.

TABLE 8

Unemployed School Leavers by Region

	April 1984	**April 1983**	**Change**
Borders	123	133	- 10
Central	1054	1216	- 162
Dumfries & Galloway	371	367	4
Fife	832	926	- 94
Grampian	477	540	- 63
Highlands	367	376	- 9
Lothian	2332	2469	- 137
Strathclyde	10520	11490	- 970
Tayside	1166	1255	- 89
Western Isles	30	55	- 25
Orkney	7	41	- 34
Shetland	7	6	1
Scotland	17286	18874	-1588

Note: The figures are unadjusted for seasonal variation.

Source: Manpower Services Commission

TABLE 9

Youth Training Scheme End of March 1984

	Available Places	Acceptance Certificates	Take up rate
Strathclyde/ Dumfries & Galloway	22,936	22,010	96%
Grampian & Tayside	5,610	4,454	79%
Borders & Lothian	5,703	5,454	97%
Central & Fife	5,451	5,223	96%
Highlands & Islands	2,016	1,629	81%
Total	**41,716**	**38,820**	**93%**

Note: Acceptance certificates represent the number of places taken up.

Source: Manpower Services Commission

Table 9 shows that a major proportion of the available places have been filled, yet there has been no real impact on the overall level of unemployment amongst shool leavers. The overall take up rate increased to 96% (40,020) at the end of April so it is clear that unless the scheme is greatly expanded, or other action is taken, the problem of youth unemployment will remain.

REGIONAL TRENDS

Central Region

Central region is dominated by two urban centres, Stirling (including Alloa) and Falkirk, (including Grangemouth). A large part of the region, to the north of Stirling, is predominantly rural and neither economically nor demographically significant. The Region's unemployment rate stands at 16%, just above the Scottish average.

Falkirk district has been experiencing a steady upward trend in unemployment since the 1960's, indeed between 1971 and 1981 unemployment grew by 220%. Unemployment is presently most severe in the Bo'ness and Denny areas. Although the service sector increasingly dominates employment, manufacturing still accounts for 40% of the employed population - higher than the average for Scotland as a whole. Manufacturing in the region consists primarily of capital intensive basic goods industries, such as chemicals, petro-chemicals and metal manufacturing. These industries have been contracting in recent years. As the 1983 Structure Plan observes:

"The decline of traditional industries has accelerated. More promising manufacturing industries have also been badly affected by recession. Inward investment has fallen from the high levels of the 1960's and has been unable to offset losses in declining sectors and also provide jobs for an expanding workforce."

By comparison with Falkirk, Stirling has been much less severely affected by recession. However within this district is Alloa which has an unemployment rate of 14.6% The economy of the district has undergone a significant change in the last ten years or so. Primary industries have declined by nearly 80% and manufacturing jobs by about 16% while service sector employment has increased by a third. Two-thirds of all manufacturing employment is accounted for by five companies. One of the most promising of recent developments has been the arrival of the American

Limited (BASE) has been established which is to invest £500,000 in an attempt to reverse the process of decline in that part of West Lothian. Contrast this project and the small sum involved with the success of Livingston in attracting jobs; during 1983 Livingston recorded a net increase of 1,100 jobs with 58 companies coming to the town. A further 23 companies have options on factory or office space.

Recent Economic Developments

Recent major economic news and developments centre on Bathgate, the miners' strike and the future of Polkemmet, and Livingston's success in attracting yet more electronics' investment. Further issues within the region included the announcement by Lothian Health Board that, following government demand for further budget cuts, some hospitals might close. The board estimated that cuts of £4.5 million will have to made in the current financial year if government plans are to be implemented.

Edinburgh District Council is to develop the infamous "hole in the ground" site in Castle Terrace. Instead of the £30 million opera house which was once mooted, a new, more modest plan, has emerged. This will involve £14 million of expenditure on a multi-purpose theatre. Construction is expected to begin in 1987.

West Lothian District Council are to spend £60,000 to enhance payments to young people working on its YTS schemes. In effect, YTS trainees will receive an additional £8.90p a week on top of the £25 they receive from the Manpower Services Commission.