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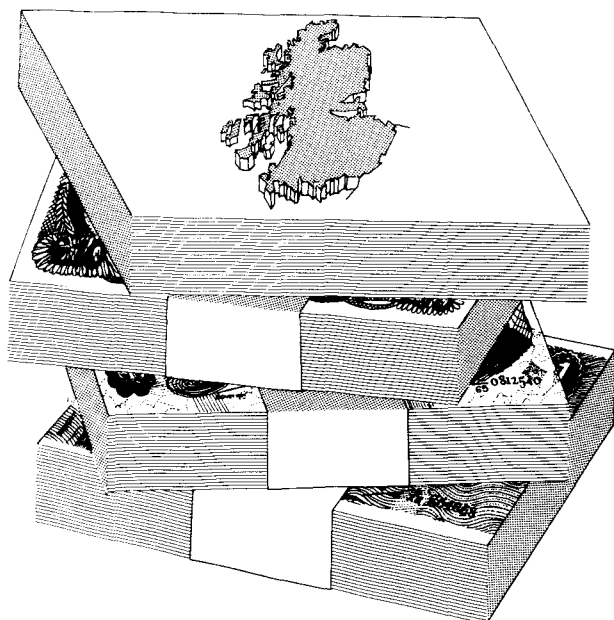
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The Scottish Economy

Indicators of Economic Activity

PRODUCTION



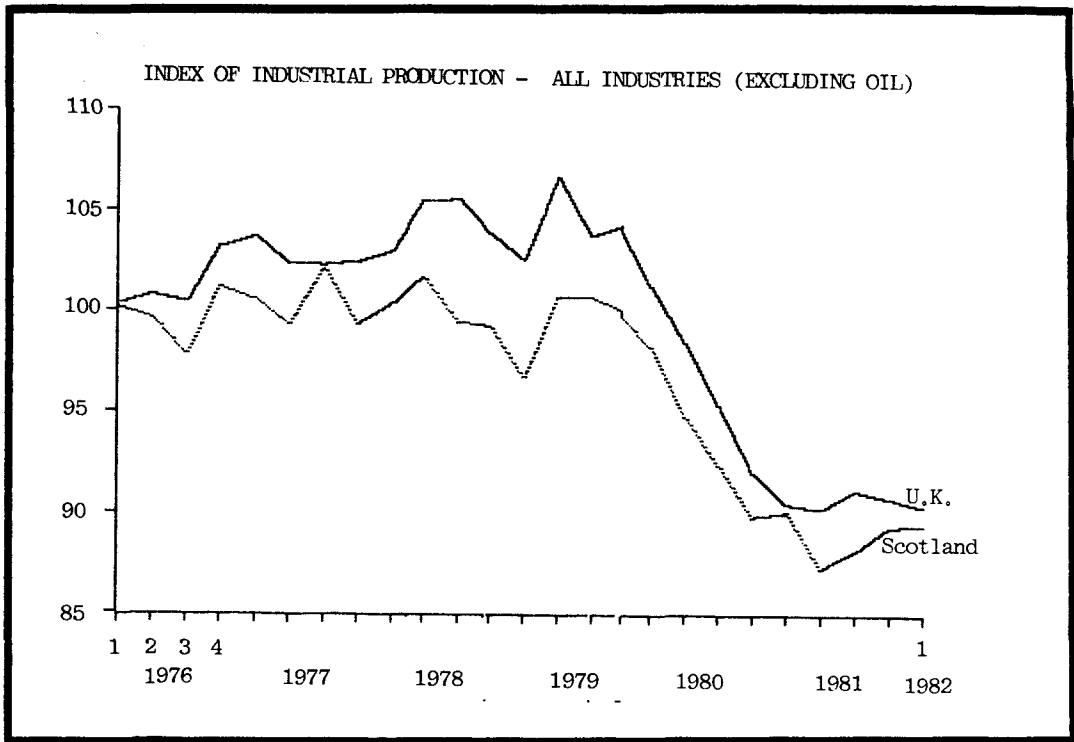
Industrial Production in Scotland (less MLH 104 - the petroleum and natural gas industry) behaved sluggishly in the first quarter of 1982, remaining at the previous quarter's level of 89.4 (1975 = 100). Manufacturing industries recorded a slight increase in production of 0.6%, a minimal increase but at least better than the UK figure which declined by 0.6%. The total index for the UK fell by 0.4% to 90.3.

The dramatic increase in Gas, Electricity and Water output during the fourth quarter of 1981 (18%) was followed by an equally dramatic reduction in the first quarter of 1982 (10%). This fluctuation was the result of the inclement weather in the last quarter of 1981. It did not indicate any significant change in industrial prospects.

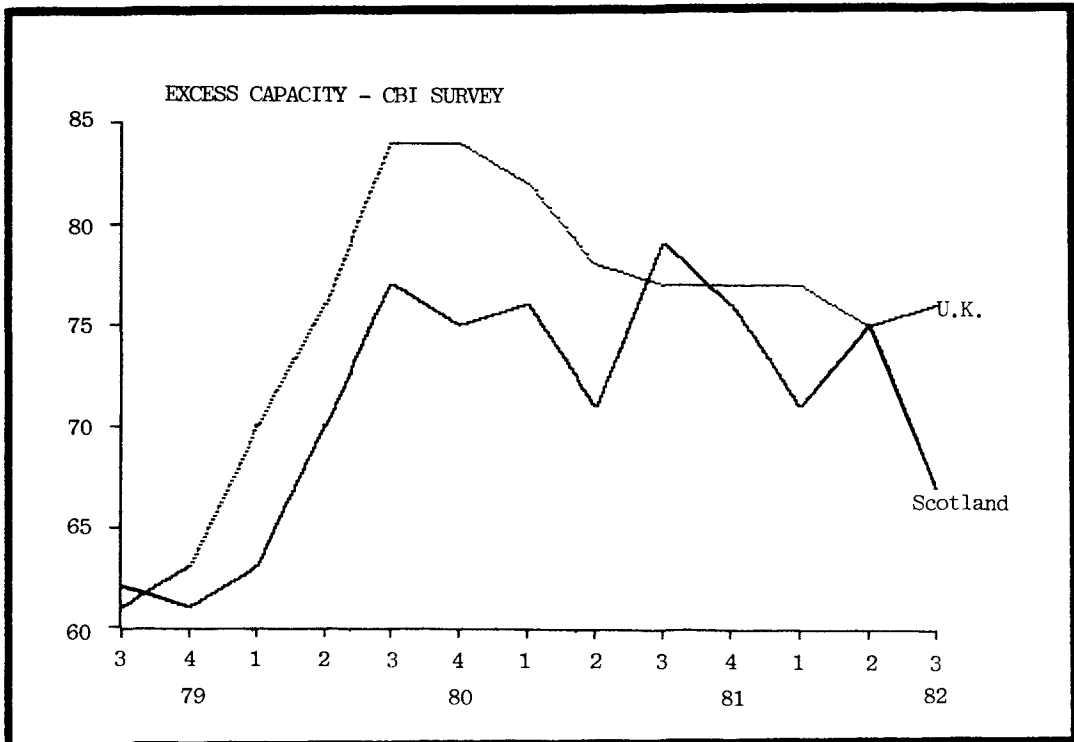
Considering market sectors, the investment goods sector continued to show signs of recovery (which are likely to be carried on with the continued fall of interest rates over the year) although intermediate and consumer goods' production were still in decline. Presumably these industries have been most affected by the rapid increase in manufactured imports.

Although aware of recent and prospective reductions in interest rates, respondents to the October 1982 CBI Industrial Trends survey in Scotland remained gloomy regarding their business prospects. A net 33% of firms were less optimistic about the general business situation whereas only 23% were less optimistic in July (in April a net 2% had been more optimistic). This indicates that the depression in the Scottish economy may not yet have reached its nadir. In the UK as a whole a net 28% of firms were less optimistic about future prospects.

Exports are extremely important to Scottish industry. Yet the CBI survey holds out little hope of recovery from this direction. A balance of 50% of firms are less optimistic about their export prospects in the next year than they were four months ago. Indeed 61% of firms reported export orders to be below normal level (only 53% of firms felt the same about total orders). A significant 54% of respondents cited prices (as compared with overseas



Source: Scottish Economic Planning Department



Source: CBI Industrial Trends Survey

competitors) as a factor likely to limit export orders. Questioned on capital expenditure authorisations, 74% of firms indicated that they were investing to increase efficiency, 46% for replacement and only 15% were investing to expand capacity. The major factor cited as limiting capital expenditure was uncertainty about demand (56%), further evidence that government efforts to bolster business confidence had not yet convinced business of future prospects for the economy.

BANK ADVANCES

In the consumption sector, the indicators are more favourable. At the UK level, retail sales have increased by 2.4% in the last quarter, helped, no doubt, by the reduction in interest rates and the relaxation of HP controls. Bank advances to the personal sector are also increasing. In the year to May 1982, the increase was 143% from £222m to £540m. Not all of the increase came through the banks' advance into the house purchase market, however. There was also a large increase in other lending to the personal sector, an increase which partly explains the buoyancy of retail sales.

COMPANY FORMATIONS AND DISSOLUTIONS

Company formations are still fairly buoyant. The reason, presumably, is that many new small companies are being formed as existing large firms close down. Management buy outs, and new starts by redundant workers are the cause of many of these new formations. Yet, because of their generally small size, their effect on employment levels is minimal.

CONSTRUCTION

Current new orders fell from £299.84m during the first quarter to £283.62m during the second quarter of 1982. This 5.4% decline masks the divergence between public sector and private sector orders noted in our previous issue. In the public sector, new orders fell by 23% while in the private sector they rose by 12%. The government's recent exhortation to Local Authorities to increase their capital spending to help the construction industry is likely to have little effect in Scotland, where most authorities have spent up to their permitted limit.

Industrial Performance

AGRICULTURE

The provisional results of the June census of Scottish agriculture show an increase of 3% in the total cereals area over last year; the areas of wheat and barley have risen, while the oats area has declined. There has been a 1% decline in the number of beef cows in Scotland, while the number of dairy cows has increased by 1.5%, the first appreciable rise in the dairy sector for several years. Numbers of sheep have continued to increase, and this year rose by 2%.

The EEC has decided on a means of reducing the butter mountain, currently a surplus of nearly 400,000 tonnes. The short term solutions are to subsidise the sale of some 120,000 tonnes of butter in member states by up to 36p per lb over Christmas and New Year, and to sell butter to Russia, but in strictly limited amounts. In the longer term, the Commission has proposed the reduction of support prices paid to dairy farmers next year as a way to discourage over-production. In EEC countries, milk production in the first half of 1982 was an average 2.5% higher than in 1981.

Figures for the first seven months of 1982 reveal that Scottish milk production, at 831.4 million litres, is 6.8% higher than in the same period of 1981, with the largest increase occurring in the North of Scotland MMB area. The high levels of production are expected to continue for the rest of the year.

EEC cereal production is expected to be between 1% and 2% higher than last year's level, and large quantities of cereals have been going into intervention stores. By October, UK offers of barley, the main Scottish cereal crop, were almost one million tonnes, more than 75% of all barley offered for intervention purchasing in the EEC. Significant quantities of UK wheat are also being sold into intervention, but as the price offered is not sufficiently above the Scottish market price to cover delivery costs, little Scottish wheat is going to intervention. World prices are currently low, making export refund payments very expensive for the EEC, and consequently the quantities of cereals which have been authorised for these export subsidies have been relatively small. If world prices are lifted by the poor USSR harvest, it will be easier for the EEC to reduce its surplus stocks.

The EEC is being asked by the UK government to designate an extra one million hectares of hill land as Less Favoured Areas, of which 70,000 hectares are in Scotland. However, should the request be granted, this will not result immediately in payments to farmers in those areas, because the government has not yet committed itself to this extent.

FISHING

Total landings of fish in Scotland by UK vessels in the second quarter of 1982 were 100,565 tonnes, worth £37.5m. In the first six months of the year, total landings by UK vessels were 12.3% up on the previous year, while their value was 16.5% higher. The average price per tonne of cod and plaice rose compared to 1981, while the average value per tonne of haddock fell.

Scottish fishermen are to receive half of the £15m aid from the government to provide assistance until the future structure of the industry can be determined in the light of a Common EEC Fisheries Policy. The aid is to be distributed on the basis of boat size.

Denmark's failure to ratify the terms of the EEC Common Fisheries Policy may result in negotiations continuing until the end of this year, when the current arrangements are due to expire. The other member countries are unwilling to make further concessions and if Denmark does not accept this, considerable problems will arise on 1 January 1983. The members who have agreed to the policy seem willing to implement it nation by nation, but Denmark has argued that without a unified policy, each country has unlimited access to all Community waters. This would have grave consequences for the fishing industry.

Although the proposed fishmeal factory at Ardveenish on Barra has been approved by the community, the project has not yet received financial backing from the government, whose hesitance must in part be attributable to the collapse of the fish drying factory at Breasclete. The fishmeal factory would provide thirty jobs, but it has been argued that as the Scottish fleet is unsuited to industrial fishing, foreign deep-sea vessels will benefit more from the establishment of such a plant.

Following the success of initial research into its possibilities, mussel cultivation is set to expand in the next few years in the Western Isles. The method devised allows cultivation in remote locations, and will provide an additional source of income to the population.

OIL AND GAS

UK production of crude oil in the period June/August 1982 totalled 25.8 million tonnes, 17.8% higher than during the equivalent period in 1981. Over the same period, indigenous natural gas production was approximately 1.8 billion therms, 21% higher than the 1981 equivalent.

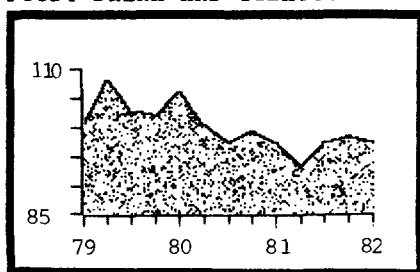
Exploration of existing blocks in the North Sea continues to be fruitful, and during the last quarter both Sovereign and Lasmo announced new oil finds in the East Shetland basin. A major fillip to exploration is expected from the government's intention, announced in September, to put up 184 new blocks in the immediately forthcoming eighth licensing round. The announcement had two features of particular interest: firstly, a number of the available blocks are in hitherto unexplored areas including the Faroe Isles Basin, the Unst Basin and the Forth Approaches. Secondly, 15 blocks will be allocated by sealed-bid auction. The last time this method was adopted in 1971 a single block (the famous 'golden block') was sold for £21million. Since some of the blocks to be auctioned in this round are in the prolific Forties area, bidding is again expected to be keen.

In October, the government sanctioned the proposed £1.2billion development of the North Alwyn field by Total/Elf. The field, which contains 200 million barrels of oil and 950 billion ft³ of gas, will require two steel platforms and associated pipelines. Production is scheduled to start in 1987 and equipment contracts are expected to be put to tender in the next

few months. A development application for the large Bruce field by Hamilton Bros/BP is also expected before the end of 1982. These development proposals will be welcomed by onshore fabricators, many of whom would otherwise be facing the prospect of empty order books after the middle of 1983. For example, Ayrshire Marine's completion of the 40,000 ton gravity base for the Maureen field in October marked the end of its present work programme. One yard which has obtained new orders in the past quarter is RGC (Methil) with two fabrication contracts from British Gas for the Morecambe field and one from Britoil for Beatrice B.

The Shell/Esso gas separation plant at St Fergus was inaugurated in October. The plant cost £250million. Eventually over 600m ft³ of methane per day and 60,000bpd of Natural Gas Liquids (NGL's) will be piped via the FLAGS system to St Fergus. Initially, the plant will handle 350m ft³ pd of methane and 35,000bpd of NGL's. The methane will be sold to British Gas to be fed into the national pipeline grid. The NGL's will be piped to Mossmorran to be separated into ethane, propane, butane and natural gasoline. Until Mossmorran is completed, the natural gasoline will be separated at St Fergus and piped to BP at Cruden Bay for use in the Grangemouth refinery. The remaining NGL's will be used to fire the new Peterhead electricity generating station. Indeed, one of the power stations' 660 MW turbines is already running on NGL's.

FOOD, DRINK AND TOBACCO



Following a small rise in the previous quarter, output in Scotland fell by 2% in the first quarter of 1982, to an index level of 97. In the year to March 1982, production was 2% lower than the corresponding level for the previous twelve months.

In the October 1982 CBI survey, a balance of 13% of respondents are less optimistic about their general business situation than four months previously. 67% report that they are operating at less than satisfactory rates of output. The downward trend of numbers employed in the sector is expected to continue by over 40% of respondents. Opinion on export prospects for the next twelve months inclines towards pessimism, whereas the outlook expressed in the previous survey had been mildly optimistic.

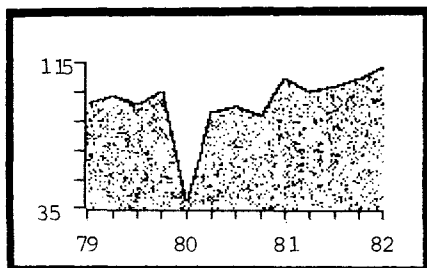
James Keiller, the confectionery company taken over by the Okhai group, is to undertake a £3.1m development scheme in their toffee-making division at Dundee. The expansion programme will allow an eightfold increase in production and the company intend to increase their workforce by around forty-five.

WHISKY

Total whisky production in the second quarter of 1982 was 69,599 thousand litres of pure alcohol. This represents an increase of 16% on the low level of the previous quarter, but is 8.5% below the production of the same quarter of 1981. Comparing the first six months of 1982 with 1981, the current year's production is 12% below that of last year, indicating no sign of recovery in the industry as yet.

Total exports in the second quarter of this year were 58,672 thousand litres, worth £214.7m. Export figures are not available for 1981, but comparison of the first six months of 1982 with the same period of 1980 reveals that current export levels are around 1.6% lower. However, the second quarter of 1982 shows an increase of 4.6% over the 1980 figure, of which a significant part is a rise in the export of bulk blends. As yet, there is no sign that the destocking phase has come to an end.

METAL MANUFACTURE



Output in metal manufacturing rose again during the first quarter of 1982 in spite of the closure of the British Aluminium plant at Invergordon. The index stood at 112 and, as mentioned in the previous Commentary, this is in sharp contrast to the UK index which fell 2% to 81 for the same period. However, after reaching record productivity levels at Ravenscraig in the Spring, demand for steel dropped, imports rose and the market suffered a severe setback. By the end of 1982 the index is likely to have fallen back considerably. CBI members in July and October reported considerable pessimism about the future and there has been a sharp decline in confidence about export markets in the most recent October survey.

Over the last year the British Steel Corporation has been reducing capacity significantly although there has not been an equivalent reduction in capacity and manpower in a number of other EEC countries. While EEC members have recently agreed to limit exports to the United States, imports into Britain have risen sharply since June. The target set for BSC's return to financial profitability is not now realistic. Unless the financial target is extended, capacity will have to be reduced still further. The revised corporate plan, taking account of the worsening trade conditions, is expected later in November when the government will be presented with the Corporation's options. The vulnerability of Ravenscraig has become the subject of much public debate and concern.

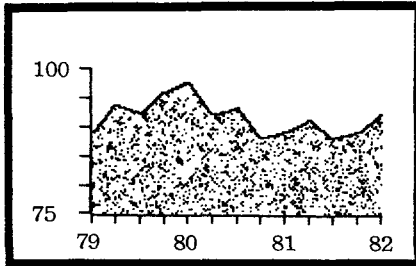
Since the summer one of the three blast furnaces at Ravenscraig has been closed and the Clydebridge plate rolling mill is to partially close with the loss of 400 of the 600 jobs. Plants involved in the offshore tubes industry have been adversely affected by the drop in drilling capacity in both the United States and the North Sea. Clydesdale have introduced short-time working for the entire works from mid-November and have made 50 employees redundant while at the Imperial Tubeworks in Airdrie 150 of the 600 workforce have lost their jobs.

Following the collapse of the Carron company two divisions of the company have been identified as having a viable future and have been sold to management-led consortia. 250 employees from the original 800 have been retained.

The closure of the Invergordon smelter in January does not appear to have secured British Aluminium's base in Scotland. With Tube Investment's

acceptance of Alcan's offer for their 58% holding in British Aluminium, the proposed merger of the two companies has been taken a stage further. The merger and subsequent rationalisation of operations is expected to threaten the existence of BA's Falkirk rolling mill where 1,100 are employed. There is a considerable overcapacity in the industry and Alcan operate a larger, more efficient, mill in South Wales. The recently modernised low-energy-cost Lochaber smelter is thought to be particularly attractive to the Canadian company.

ENGINEERING AND ALLIED INDUSTRIES



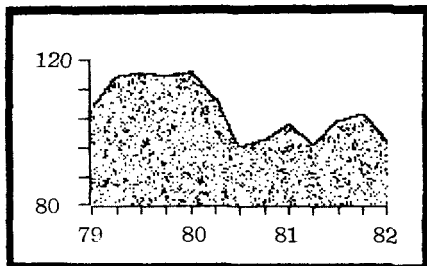
The index of production of engineering industries overall increased slightly in the first quarter of 1982. Electrical engineering recorded an 11% rise after failing to grow during 1981 for the first time since 1975. Mechanical engineering output has remained static over the past three years while shipbuilding and marine engineering and vehicle production continues to fall.

Although business confidence among CBI members in October was low, and had not changed since July, responses to a number of individual questions suggest there may be a slight upturn in demand. For example, export order books improved over the period, with 34% of respondents recording normal orders in volume terms and 61% below normal in October, compared with 7% and 92% respectively in July.

Demand from the old-established customers such as the steel and motor industries continues to weaken and the best prospects appear to be for specialised companies concentrating on increasingly competitive overseas markets and, in Scotland in particular, in the electronics sector. The sanctions which had been imposed by the United States government on John Brown Engineering for supplying turbines for the Siberian pipeline have been lifted. A large export order for a coal-fired power station in India will bring orders worth £25m to Scotland, and NEI-Peebles, the main beneficiaries, will supply power distribution transformers.

The electrical engineering sector has not been immune from the pattern of contraction and redundancies, although there have been a number of expansion plans announced over the summer in electronics. Veeder-Root in Dundee are to make 400 of their 1,000 workforce redundant and 360 are likely to lose their jobs by next spring at GEC's plants in Glenrothes and Kirkcaldy. However, on the brighter side, Nippon Electric at Livingston have started production, while General Instruments opened a £10m extension to their Glenrothes factory in October and Wang announced that they are to invest £40m in the production of word and data processors at Stirling University. It is also considered likely that IBM will site the European production of its personal computer at its Greenock plant, involving investment of £30m.

CHEMICALS. COAL AND PETROLEUM



Scottish production fell by 6% in the first quarter of 1982 to an index level of 98. Output in the UK sector in comparison fell by 2%. There was no change in the Scottish production level between the year to March 1982 and the preceding four quarters.

In the October 1982 CBI survey, respondents have moved towards a more pessimistic outlook for the general business situation in coming months, with a net 47% adopting this view. 61% of respondents are more pessimistic about their export prospects over the next year than they were four months ago. There has been some improvement in production levels since the last survey was taken. Then, 96% of respondents were working at unsatisfactory rates of operations, whereas 44% of October respondents are in this position. A lack of orders remains the major constraint to output.

R P Adam Ltd are to increase the workforce at their Selkirk chemical plant by thirty, as well as providing forty more jobs elsewhere in the UK. The new jobs will be created over the next two years.

The continuing over-production of coal in the UK has heightened the need for some reduction in output levels, and some Scottish pits may face closure. It is thought that Kinneil in West Lothian, and Killoch in Ayrshire may be closed, but decisions on these and other pits have yet to be taken.

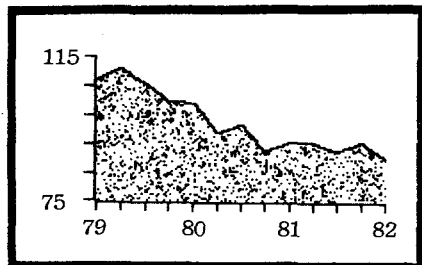
SHIPBUILDING AND VEHICLES

Output in shipbuilding and marine and vehicle engineering fell 4% during the first quarter of 1982, and with world shipbuilding orders falling during the second quarter a report from the European Commission forecasts that no improvement can be expected over the next two years. In Scotland, although Scott Lithgow will soon need further orders to ensure continuity of employment for the current workforce, their task could be extremely difficult. The offshore market on which the yard now depends is depressed, there have been industrial relations problems, and the yard's two latest vessels have both been nearly a year behind schedule on completion dates.

Ferguson-Ailsa, with shipyards at Port Glasgow and Troon, have won a £13m contract for four tugs for the Kenya Port Authority, which should help to secure the jobs of 860 shipyard workers for the next year at least.

During the quarter, Highland Fabricators discovered apparently serious welding problems in the tension-leg platform they are constructing for Conoco. Partly as a result of this, Highland Fabricators recently announced the laying-off of 300 workers.

TEXTILES, LEATHER AND CLOTHING



The index of production for the first quarter of 1982, at 87, is 4% below the level of the previous quarter, a relatively worse performance than the reduction of 1% experienced in the UK sector over the same period. Output in the year to March 1982 was 3% lower than the level of the preceding year, a relatively better performance than the 6% fall in the UK sector.

The October 1982 CBI survey shows that, on balance, almost half of respondents are less optimistic about their industry's general business climate than they were four months previously. A net 55% foresee poorer export prospects for the industry in the coming year than they anticipated four months ago. The volume of current orders is below normal for the majority of firms replying to the survey and, on balance 30%, of respondents expect that this will continue to be the case in the next four months.

Eighty more jobs in the Scottish carpet industry will be lost when the Belgian-based company who recently took over Caird Carpets Ltd proceed with their planned closure of the Ashton works in Dundee. The company is facing opposition from their workforce. The carpet manufacturing plant at Kilmarnock, which was formerly owned by BMK, now has export orders worth more than £1.5m, the outcome of a worldwide export drive designed to counteract the impact of the recession on domestic sales. Stoddart Carpets have announced a major reorganisation which involves a reduction in the number of their employees from 2,000 to 1,250.

Blue Bell Apparel (UK) are to close their jeans and leisure-wear factory in Kilwinning, with the loss of 85 jobs. The closure has been deemed necessary to maintain production at satisfactory levels in the company's two remaining plants.

Redundancies of at least 140 workers are imminent in two Borders textile firms, Clan Royal and Laidlaw & Fairgrieve, both controlled by the Dawson Group. More jobs will be lost following the closure of J & J C Dorward's tweed manufacturing plant at Galashiels, although some employees may be transferred to the parent company's operations at Innerleithen. The workers of at least six Borders knitwear companies are presently working three and four-day weeks, with no prospect of improvement in the short term. The difficulties faced by these industries can be attributed to lack of demand, and to low prices, forcing cuts in production costs.

**BRICKS, POTTERY,
GLASS AND CEMENT** Following the small increase in output at the end of 1981, Scottish production in the first quarter of 1982 rose by an exceptional 14%. There was a slight fall in the level of production of the UK sector.

This sector has been severely affected by the recession, as witnessed by the 11% fall in production between the year to March 1982 and the preceding

year. This was a relatively worse decline than that of the UK sector over the same period, where output fell by 6%.

One hundred and twenty jobs are to be lost this month at G R Stein's refractories in Linlithgow. The plant manufactures heat resistant bricks and demand has suffered from the general recession, and especially from the decline in the steel industry.

Bison Concrete (Scotland), part of the National Chemical Industries Group, have confirmed that between eighty-five and ninety-five workers will lose their jobs by the end of the year, a measure made necessary by the recession in the building trade.

The glass lining process at the Leven plant formerly owned by Henry Balfour is to be retained there, securing 140 jobs. The decision was taken by the new owners, Sohio, after lengthy representation from the work-force, local authorities and MPs. The prospects for other sections of the plant remain uncertain.

**PAPER, PRINTING
AND PUBLISHING**

Scottish production reached its lowest level for several years when output fell by 1% in the first quarter of 1982 to an index figure of 93. The UK sector experienced a 2% reduction in output in the same period.

Attempts to re-open the Corpach pulp mill have failed, because no commercial backing could be found. Attention is now being directed towards finding alternative timber processing industries to improve economic prospects in the Lochaber area, but this will prove a difficult task given the depressed state of the timber-using industry throughout the UK.

Employment and Unemployment

Table 1 below shows the estimated numbers of people in employment in Scotland and in England and Wales for the period June 1981 to June 1982.

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

SCOTLAND	TOTAL	MALES	FEMALES	FEMALE/ MALE RATIO	SCOTTISH EMPLOYMENT AS A % OF GB EMPLOYMENT
June 1981	1,931	1,101	830	0.75	9.32
Sept 1981	1,912	1,089	824	0.76	9.29
Dec 1981	1,884	1,067	816	0.76	9.25
March 1982	1,852	1,051	801	0.76	9.22
June 1982	1,872	1,058	814	0.77	9.33

ENGLAND AND WALES

June 1981	18,791	10,902	7,889	0.72
Sept 1981	18,677	10,838	7,838	0.72
Dec 1981	18,488	10,671	7,818	0.73
March 1982	18,229	10,523	7,705	0.73
June 1982	18,196	10,462	7,734	0.74

Source: Department of Employment Gazette

Total employment in Scotland rose by 20 thousand (1.1%) to 1872 thousand in the quarter from March to June 1982, the largest increase in any quarter since the onset of this recession. Much of this increase is, however, attributable to seasonal factors and should not be taken as an indication of a reversal of the underlying downward trend of employment. The total number of employees in employment in June was over 59,000 (or 3.1%) below the level in June last year and 200,000 (or 9.9%) below the total for June 1979.

In England and Wales, where the pattern of labour market developments differed from that of Scotland, total employment fell by 33,000 (0.2%) to 18,196 thousand in the quarter from March to June 1982. At the sectoral level (see Table 2) both areas sustained increases in service sector employment (2.2% in Scotland and 0.3% in England and Wales) but in the latter case it was insufficient to offset job losses in other sectors. Consequently, the ratio of total employment in Scotland to that of Great Britain has risen from 9.22% in March to 9.33% in June.

Female employment rose between March and June this year by 1.6% in Scotland and by 0.4% in England and Wales, a reflection of the employment gains in the service sector where women have a stronger representation. In the same period, male employment in Scotland recorded a 0.7% increase compared to a decline of 0.6% in England and Wales.

TABLE 2 EMPLOYMENT BY SECTOR IN SCOTLAND AND IN ENGLAND AND WALES, JUNE 1982

SCOTLAND	NO OF EMPLOYED (000's)	% OF TOTAL	CHANGE IN NOS EMPLOYED	
			MARCH 1982- JUNE 1982	JUNE 1981- JUNE 1982 (000's)
Agriculture, Forestry and Fishing	44	2.4	+ 1	- 1
Manufacturing	457	24.4	- 6	- 32
Construction, Mining & Utilities	199	10.6	0	- 14
Services	1,172	62.6	+ 25	- 12
TOTAL	1,872	100.0	+ 20	- 59
ENGLAND AND WALES				
Agriculture, Forestry and Fishing	301	1.7	+ 3	- 6
Manufacturing	5,142	28.3	- 69	-295
Construction, Mining & Utilities	1,445	7.9	- 5	-113
Services	11,308	62.1	+ 38	-181
TOTAL	18,196	100.0	- 33	-595

Source: Department of Employment Gazette

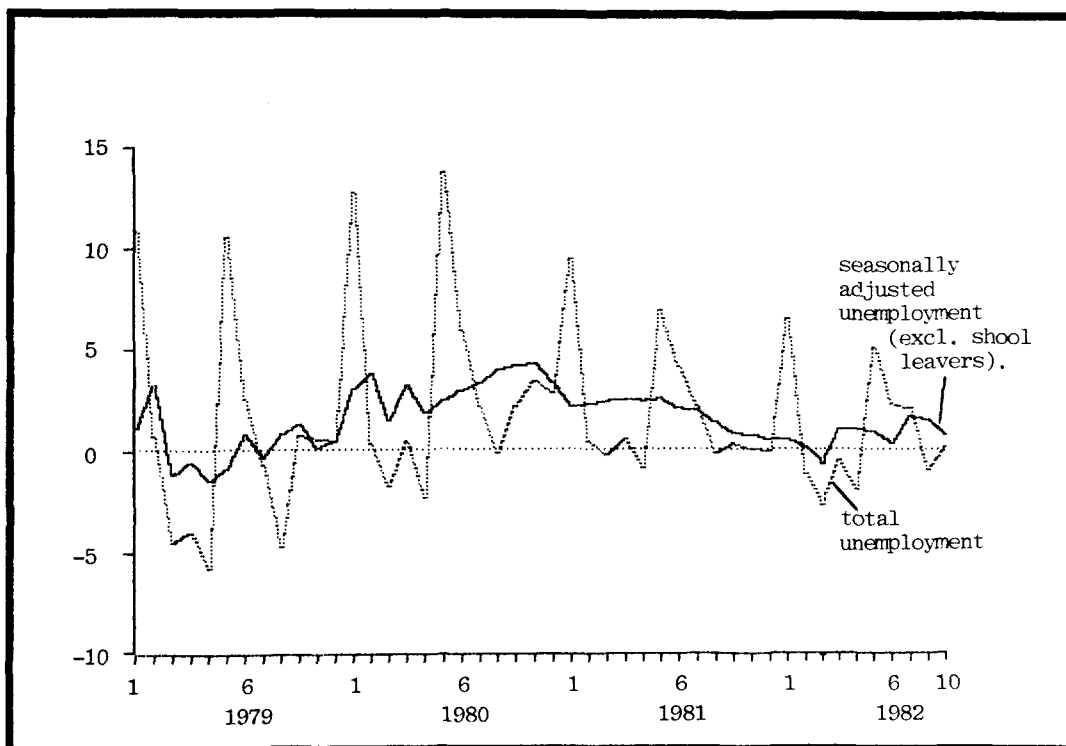
As Table 2 indicates, the manufacturing sector in Scotland lost 6,000 more jobs in the second quarter of 1982, bringing an overall decline in the year to June 1982 of 32,000 jobs. In the 1960's and 1970's the effects of the rather more gradual decline of the manufacturing sector were offset by expansion of service sector employment. The service sector has however not remained immune to the effects of the recession, losing 14,000 jobs in the year to June 1982 and approximately 25,000 in the course of the recession so far. Given that the service sector itself has tremendous potential for introducing labour saving techniques, its ability to resume taking up the slack in the labour market caused by further erosion of the manufacturing sector must be questionable. The continued deterioration of the manufacturing sector, therefore, has severe implications for future levels

of unemployment. Within the sectors, performance of the various industries has been varied, through the decline in the construction industry has been particularly marked, losing 14,000 jobs, almost 10%, in the year to June. The recently announced reduction of 1% in the employers' National Insurance surcharge will however provide some relief to all sectors.

Total registered unemployed in Scotland rose marginally in October to 352,750 (15.8%), an increase of 322 over the September total. Included in this figure are 23,881 unemployed school leavers, 3,425 fewer than in September. Excluding school leavers, the seasonally adjusted figure of 328,500 (14.7%) is 2,500 up on the previous month's total and 26,400 up on the figure for October 1981.

Figure 1 shows the rate of change of unemployment on a month to month basis from the beginning of 1979, thus covering the period of the recession. The influence of school leavers on total unemployment is clearly in evidence around the traditional school-leaving dates. Fewer children leaving school and more children going straight from school on to youth employment schemes than previously have probably been important factors in causing successive peaks to become less pronounced.

Figure 1 The Monthly change in Total and Seasonally Adjusted Unemployment (excluding school leavers) as a Percentage of the Previous Month's total



Source: Department of Employment Gazette

The underlying rate of increase in unemployment, shown by the seasonally adjusted data, provides a better indication of the trend in hard core unemployment. The deceleration in the underlying upward trend which was a feature of unemployment in the latter half of 1981 and the beginning of this year came to an end in March. Ironically, the monthly rate of change in March was negative and seasonally adjusted unemployment fell for the only time since the autumn of 1979. Since then, the rate of increase in seasonally adjusted unemployment has shown considerable volatility making the directions of future changes difficult to predict. However, given the severity of recent increases in seasonally adjusted unemployment and the prospect of adverse seasonal factors over the winter period, the likelihood is that the trends of both total unemployment and hard core unemployment will continue to be upwards over the next few months.

It should be noted that the system by which the unemployment data up to October 1982 have been compiled has been discontinued. Following the changeover to voluntary registration at Employment Offices on 18 October, the unemployment count will be made from the records of claimants at Unemployment Benefit Offices. Registering for work will become voluntary in the sense that unemployed people aged 18 and over will no longer have to register for work at a Job Centre or Employment Office in order to be paid unemployment or supplementary benefit. The move to voluntary registration stems from the recommendations in the Rayner Report "Payments of Benefits to Unemployed People" (1981) which concluded that registering for work was not an effective test of someone's availability for work and that its removal would have the advantage, as far as the employment service is concerned, of allowing significant savings in terms of money and administrative time and effort. Whilst the unemployment data presented here have been calculated on the old basis, the Department of Employment intends to reproduce the October figures on the new basis, thus enabling a more detailed consideration of the effect of the change. This new set of data is not yet available but the Department of Employment has indicated that it expects approximately 100,000 fewer people to appear unemployed in Great Britain as a whole as a result of the change.

As the data in Table 3 indicate, all regions within the UK recorded substantial increases in their seasonally adjusted unemployment rates in the third quarter of this year.

The largest increases in unemployment were sustained by the South-East and East Anglia (6.7% and 6.0% respectively), areas with the lowest unemployment rates, whereas in Scotland and the North of England, regions with very much higher unemployment rates, unemployment rose by less than the average increase of 4.1% for GB as a whole. These changes tend to support the view that as a recession lengthens, unemployment becomes less regionally concentrated. At the start of the recession, the unemployment rate of the region with the severest unemployment (excluding N Ireland where conditions are singularly difficult) was 50% above the average for Great Britain and more than double the rate of the region faring best in terms of unemployment. Now the gap has been reduced and the figures are approximately 30% and 71% respectively.

Additionally, there has been a re-ordering of the rankings of the regions by unemployment criteria and, although some comfort may be derived from the fact that Scotland's relative position has improved, it means that the case for Scotland, vis-a-vis other regions, to receive special assistance to alleviate the effects of unemployment will have been weakened.

**TABLE 3 REGIONAL UNEMPLOYMENT AND VACANCIES IN THE UK
AT OCTOBER 1982**

	UNEMPLOYMENT RATE (%) ¹⁾		% INCREASE JULY-OCTOBER	UNEMPLOYMENT/ VACANCIES RATIO ^{1), 2)}	
	JULY	OCTOBER		JULY	OCTOBER
South-East	9.0	9.6	6.7	16.0	17.6
East Anglia	10.0	10.6	6.0	18.6	19.9
South West	10.5	11.1	5.7	17.7	16.7
West Midlands	14.8	15.4	4.1	48.4	46.9
East Midlands	10.9	11.3	3.7	25.8	25.3
Yorks & Humber	12.8	13.4	4.7	39.5	43.4
North-West	14.8	15.5	4.7	40.1	40.8
North	15.9	16.4	3.1	44.9	41.1
Wales	15.4	16.2	5.2	29.2	28.2
Scotland	14.2	14.7	3.5	23.9	24.3
Great Britain	12.1	12.6	4.1	25.5	26.1
North Ireland	19.2	20.0	4.2	110.1	95.3
UK	12.3	12.8	4.1	26.3	26.9

- 1) Seasonally adjusted excluding school leavers
2) Seasonally adjusted excluding vacancies notified to careers offices.

Source: Department of Employment

Over the third quarter, most regions recorded an increase in vacancies notified to Employment Offices, with the result that more than half the regions saw an improvement in their unemployment/vacancies ratios. Although the ratio for Scotland declined slightly, the level of vacancies in October 1982 was marginally up on the total for the corresponding month last year.

Without the operation of special employment and training measures, unemployment would have been higher. The estimated impact of these measures on unemployment is very difficult to assess, but according to official calculations, it is conservatively put at around 50% to 60% of the total number of people supported by the schemes. Table 4 shows that 62,002 people in Scotland were covered by the various schemes in September, an increase of 2,152 (3.6%) over the August total, but over 10,000 down on the figure for September 1981.

Considerably priority has been given to the young jobless and this is reflected in the relative significance of the Youth Opportunities Programme, the mainstay of the measures designed to help young people. However, after a summer in which the number of unemployed for over a year passed the million mark in the UK, schemes which are aimed at the **long-term** unemployed (defined as over one year for adults, six months for young people) will certainly now receive greater emphasis than in the past.

TABLE 4 SPECIAL EMPLOYMENT AND TRAINING MEASURES IN SCOTLAND

SCHEME	NUMBER OF PERSONS COVERED	CHANGES IN PERSONS COVERED	
	SEPTEMBER 1982	AUG. 1982- SEPT. 1982	SEPT. 1981 SEPT. 1982
TSTWCS ¹⁾	3,830	- 512	- 22,030
Job Release Scheme	5,764	+ 83	+ 1,518
Youth Opportunity Prog.	32,000 ³⁾	+ 3,000	- 3,000
Community Industry	1,475	+ 6	- 8
Special Temporary Employment Programme/CEP ²⁾	6,074	- 121	+ 1,654
Training Place Supported in Industry	1,248	+ 404	- 226
New Training Places	-	- 1,850	
Enterprise Allowance	124	+ 21	+ 124
Young Workers Scheme	11,487 ⁴⁾	+ 1,121	+ 11,487
TOTAL	62,002	+ 2,152	- 10,481

- 1) Temporary Short-Time Working Compensation Scheme
- 2) Community Enterprise Programme which replaced the Special Temporary Employment Programme in April 1981.
- 3) Includes 2,000 adults on YOP.
- 4) Cumulative total of applications approved.

Source: Department of Employment

Regional Review

UNEMPLOYMENT AND VACANCIES

With the exception of Fife, Tayside and Shetland, unemployment increased across all the regions of Scotland over the last quarter. Particularly large increases occurred in Central where the unemployment rate rose from 15.4% to 16.2% and in Lothian where unemployment rose by over 2,000 from 13.1% to 13.8%.

The disparity in unemployment between regions continues ranging from 6.4% in Shetland to 27.7% in the Western Isles. The bulk of unemployment however remains in Strathclyde with a total of 200,489 (18.2%) without jobs, accounting for 57% of total Scottish unemployment.

The lack of employment opportunities in all the Scottish regions is emphasised by the number of notified vacancies listed in Table 1. Although a slight increase in the number of vacancies was experienced over the last quarter, in comparison to the unemployment levels, the task of employment creation remains immense.

It is obvious from Table 1 that large regional inequalities exist in Scotland in both industrial and rural areas. If economic expansion eventually takes place then it is highly probable that some regions will continue to exhibit sluggish performance. What is needed, apart from a national upturn in the economy will be more innovative and effective forms of regional and urban policy than have been implemented in the past. The current range of regional policy instruments appear increasingly cosmetic, and misdirected, compared to the magnitude of the regional problem in hand.

REGIONAL DEVELOPMENT GRANTS

Scotland received development grants totalling £20.2m in the third quarter of 1982, representing 19.1% of the UK total. In real terms, this represents a fall of 9.8% over the previous quarter. As a reasonable indicator of investment in the Scottish economy, it is clear that expectations remain low. Areas receiving over £1.0m in development grants were Kilwinning, Grangemouth, Greenock, Renfrew, Dumbarton and Inverness.

The government recently announced the ending of the four month moratorium on payment of regional development grants. The moratorium was originally introduced in 1979 to help the government cut its public spending plans for 1979-80.

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

	TOTAL UNEMPLOYMENT	UNEMPLOYMENT RATE %	VACANCIES
Borders	3,458 (3,442)	8.8 (8.8)	284 (241)
Central	19,178 (18,253)	16.2 (15.4)	668 (684)
Dumfries and Galloway	8,192 (8,083)	14.7 (14.5)	298 (278)
Fife	18,142 (19,507)	13.3 (14.3)	723 (612)
Grampian	16,981 (16,183)	9.1 (8.7)	2,534 (2,546)
Highland	10,873 (10,454)	13.7 (13.2)	767 (890)
Lothian	47,146 (45,012)	13.8 (13.1)	1,978 (1,775)
Strathclyde	200,489 (199,770)	18.2 (18.1)	5,926 (5,646)
Tayside	24,619 (24,714)	14.2 (14.3)	739 (1,202)
Western Isles	2,292 (2,019)	27.7 (24.4)	56 (77)
Orkney	813 (806)	13.2 (13.1)	62 (32)
Shetland	567 (588)	6.4 (6.7)	44 (61)
SCOTLAND	352,750 (348,831)	15.8 (15.6)	14,079 (14,044)

Figures for July 1982 are in brackets. Unemployment totals and the unemployment rates include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Offices and the Employment Services Division. Since double-counting occurs the vacancies figures have to be viewed as slight overestimates in most regions.

Source: Manpower Services Commission

UNEMPLOYMENT BLACKSPOTS

The previous section showed the way in which unemployment is distributed unequally over the regions of Scotland. The regional unemployment figures however conceal much wider inequalities and higher unemployment rates at a sub-regional level. Although data from the Department of Employment does not allow as detailed a spatial account as might be desired, an approximate idea of where unemployment is hitting hardest can be ascertained. The period under analysis is May 1979 to May 1982, the first three years of the present government.

TABLE 2 THE DISTRIBUTION OF UNEMPLOYMENT

PERCENTAGE UNEMPLOYED	NUMBER OF EMPLOYMENT OFFICES	
	MAY 1979	MAY 1982
0-5	10	0
5.1-10	39	14
10.1-15	10	22
15.1-20	1	20
20.1+	0	4

Source: Department of Employment

Table 2 shows quite clearly that over the three year period of the present government there has been a substantial upwards shift in the distribution of unemployment among Employment Office areas in Scotland. The worst affected areas have remained fairly much the same over the period with the Irvine/Kilwinning/Saltcoats area (23.0%), Stornoway (22.3%), Rothesay (21.7%), Portree (20.8%), Newton Stewart (19.7%) and Sanquhar (19.6%) all remaining at the top of the unemployment league table. The one newcomer to the unemployment blackspots list is the Bathgate/Broxburn/Livingston area that has increased its unemployment rate from 8.6% to 19.8% and in May 1982 had the fifth highest unemployment rate.

At a more localised level quite dramatic increases in unemployment have taken place since the present government came to power, which the above figures do not reveal. Despite the fact that 51% of unemployment in Strathclyde region exists in the Glasgow travel to work area, comprising Glasgow City and surrounding areas such as Barrhead, Clydebank, East Kilbride and Cumbernauld, Department of Employment data only gives one unemployment rate for such a highly populated area. For these smaller areas only unemployment levels are given which makes the estimation of local unemployment rates impossible. It is in these small but highly populated areas however that the highest unemployment rates might be expected to be found.

To get some idea of how unemployment has hit certain areas, in particular within the Central Belt, the best that can be done from the Department of Employment data is to look at the percentage change in unemployment levels over the period May 1979 to May 1982.

TABLE 3 PERCENTAGE CHANGE IN UNEMPLOYMENT, MAY 1979 TO MAY 1982

EMPLOYMENT OFFICE AREA	% CHANGE IN TOTAL UNEMPLOYMENT	% CHANGE IN MALE UNEMPLOYMENT
Johnstone	207	280
Bathgate	144	192
Cumbernauld	144	165
Renfrew	142	183
East Kilbride	134	238
Falkirk	131	173
Paisley	131	151
Kilmarnock	127	142
Irvine	124	172
Rutherglen	123	126
Blantyre	116	114
Barrhead	114	126
Airdrie	112	132
Govan	103	105

Source: Department of Employment

Table 3 shows the way in which unemployment, and in particular male unemployment, has increased under the present government. These large increases, in such a short period of time, have been suffered not only by areas traditionally associated with depressed industries, such as Renfrew, Paisley and Govan, but also by towns set up especially as growth points like Cumbernauld, East Kilbride and Irvine.

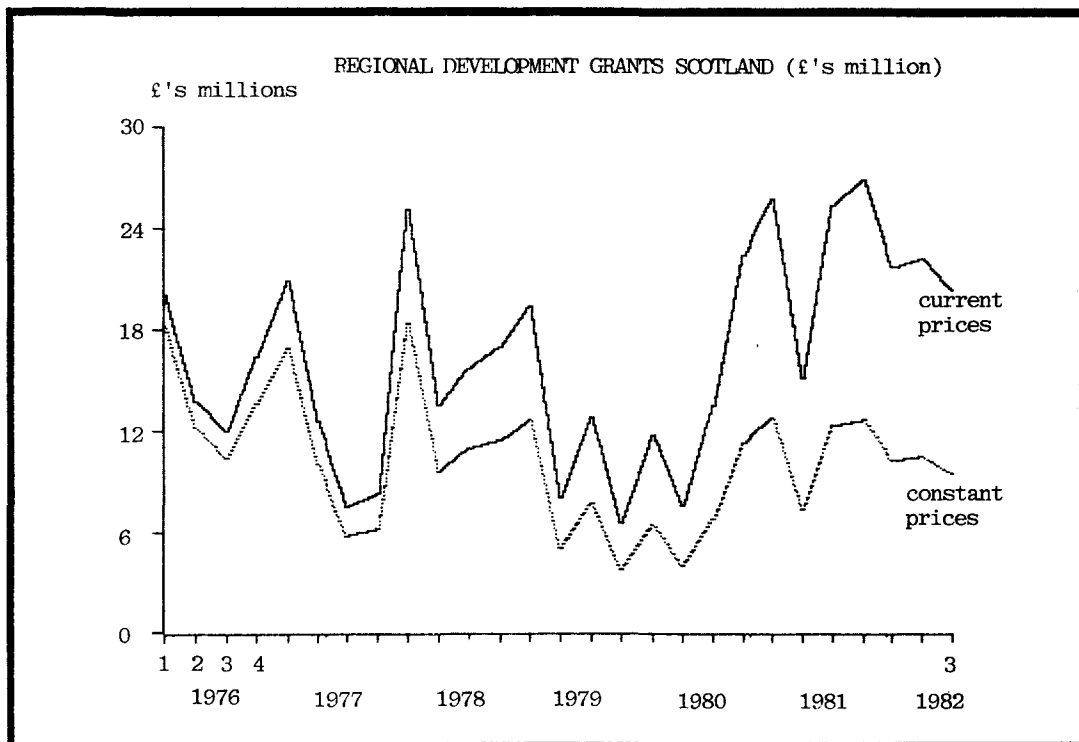


Table 4 shows the ten Unemployment Benefit office areas with the highest unemployment rates in July 1982. The rates shown in Table 4 are calculated by Strathclyde Regional Council from 1980 residence based economically active totals unlike those computed by the Department of Employment that are based on workforce estimates at 1977.

TABLE 4 ESTIMATED UNEMPLOYMENT RATES IN STRATHCLYDE REGION, JULY 1982

AREA	UNEMPLOYMENT RATE %	MALE UNEMPLOYMENT RATE %
Springburn	25.5	33.2
Easterhouse	24.0	34.4
Parkhead	24.0	31.1
Hillington	23.5	30.7
Motherwell	21.4	22.7
Blantyre	21.0	24.5
Irvine	21.0	24.1
Kilbirnie	20.8	22.1
Renfrew	20.4	22.2
Alexandria	20.2	23.1

Source: Strathclyde Regional Council

Outlook and Appraisal

Most economic commentary at the present time is preoccupied with the short-term, the exact timing of the recovery from the recession. Much is made of interest rates, the exchange rate, monetary policy etc, etc. However, it is important to understand that these short-term factors are but a veil which conceals the real underlying long-term factors which determine whether or not our standard of living will rise and whether or not we shall have full employment.

In the last thirty-five years citizens of the advanced industrialised countries of the western world have come to take for granted a continuing rise in their material standard of living, accompanied by full employment. Such progress was made possible by a set of institutions and attitudes sympathetic to change, rapid improvements in technology, favourable primary commodity prices, and an environment of free trade in industrial goods amongst the industrialised countries. Between 1947 and 1967 there were six major trade negotiations which progressively reduced industrial tariffs. The basic principle of these negotiations, enshrined in GATT, is that trade should not be discriminatory: what applies to one trading partner should apply to all. As a consequence, world trade had by the early 1970's grown to seven times its post war volume thus permitting full employment and rising living standards in the industrialised countries. The opportunities provided by these favourable circumstances were realised by the willingness on the part of inhabitants of the industrialised countries to continuously revise their occupations, moving from low value added to higher value added activities in response to wage rate, exchange rate and other price signals. Thus, the growth of the industrial sector of the Scottish economy has proceeded from basic metal-working to more sophisticated processing and fabrication activities. If as much political energy had been expended in facilitating this adjustment as to resisting it, employment prospects in the Scottish economy would today be much brighter.

The price of this prosperity is interdependence: in common with the great majority of countries of the world, Scotland is heavily dependent on trade with the rest of the world. Scottish consumers are now quite accustomed to buying imported goods over the whole range of their purchases. Yet a cloud is now gathering over the present world trading arrangements. The rules of the game which have been observed for the past thirty-five years are now being increasingly disregarded. This is so for two reasons. First, some countries, which have not made such dramatic gains through trade as others, are beginning to wonder if the rules of the game have been fixed against them. Secondly, and much more importantly, with unemployment exceeding 30 million in the industrialised countries, the political pressures in favour of protectionism are becoming overwhelming. Despite such findings as those of a recent study for the United Nations International Labour Office, which shows that for each job lost by industrialised countries to low cost imports from developing countries another three are created by exports to those countries, demands by sectoral pressure groups have become increasingly shrill. Dissatisfaction with the UK's inability to penetrate the Japanese market, complaints about protectionism in the EEC food and agricultural markets by US farmers, dis-agreements over trade in steel, textiles and shoes between the USA and Europe, barriers to the exports of Scotch whisky..... the list of grievances is growing rapidly. And as fast as these grievances grow, so too do the number of informal barriers to trade. GATT has been able to identify no fewer than 47 such protectionist devices in operation in the industrialised countries at the present time.

This is the background against which the forthcoming meeting of trade ministers from 88 countries in Geneva from 24-26 November will take place. At the present time, the preparatory talks and negotiations are already underway and unless these talks can reverse the trend of the past five years, the thirty-five year old trade rules could become ineffective with all which that implies for future living standards and employment. The prospects are not good.

This Commentary has for years been calling for a cut in the employers' national insurance contribution as a means of stimulating the demand for labour. It must be said that the timing of the recent 1% cut seems to owe more to political than to economic calculation. However, together with the recent sharp fall in interest rates, this might be expected to provide the trigger for some industrial recovery of which so far few signs can be discerned. Those who are willing to take a pessimistic view of short-term events, however, will find their views reinforced by the reports of diminishing business confidence.

QUARTERLY ECONOMIC FORECASTS

The short-term outlook for the Scottish economy remains fairly pessimistic. Though recent falls in interest rates may give a small filip to consumer demand around Christmas, there are no immediate prospects for an upsurge in industrial output. Import propensities are now so high as to negate most of the beneficial effects of an increase in demand. The forecasts detailed below reflect this increasingly pessimistic view of short-term developments in the Scottish economy.

Quarter	1982		1983			
	3	4	1	2	3	4
Manufacturing Output UK (1975 = 100)	90	90	90	91	92	92
Manufacturing Output Scotland (1975 = 100)	90	90	91	91	92	93
Manufacturing Employment Scotland (000's)	453	448	441	436	430	431
Unemployment Scotland (000's)	352	353	365	359	368	369

Unemployment, which averaged 352,000 in the third quarter of 1982 could rise to 369,000 thousand by the end of 1983 if present trends continue. With no significant stimulus to demand in the offing, any substantive improvement in labour market conditions is likely to be postponed, at least until 1984.