McFarland, Mark and Ashcroft, Brian and Brooks, Richard and Draper, Paul and Dunlop, Stewart and Lockyer, Cliff and Love, Jim and Malloy, Eleanor and McGough, Tony and McGregor, Peter and McLellan, R and McNicoll, Iain and McRory, Eric and O'Brien, Vanessa and Smith, R and Stevens, Jim and Swales, Kim and Yin, Ya Ping and , Fraser of Allander Institute (1993) The Scottish economy [March 1993]. Quarterly Economic Commentary, 18 (3). pp. 10-59. ISSN 0306-7866 ,

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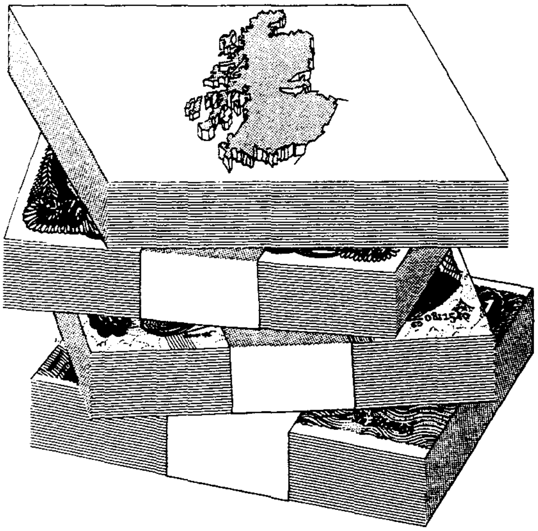
THE SCOTTISH ECONOMY



SHORT-TERM FORECASTS*

Our previous forecast of a small fall in the seasonally adjusted output index for Scottish production industries (Divisions 1 to 4 of the 1980 SIC) for the third quarter last year was not borne out by the actual outcome. This is mainly due to a large under-reporting of the index for the second quarter last year in the previous official data release. It is now clear that the prolonged recession, and particularly the substantial fall in output in the second quarter contributed significantly to the deterioration of business confidence as reported in the previous Scottish Chambers' business surveys (which should also affect the early official recording of the second quarter's output). This under-reporting leads our model to predict a further fall, although small, in the following quarter. However, the actual outcome of industrial output, total volume of sales and new orders in the third quarter turned out to be not as bad as we had been expecting (see also the following business survey section). Nevertheless, as can be seen below, we are expecting a large fall in production for 1992 as a whole. There will be a further marked reduction in Scottish industrial output.

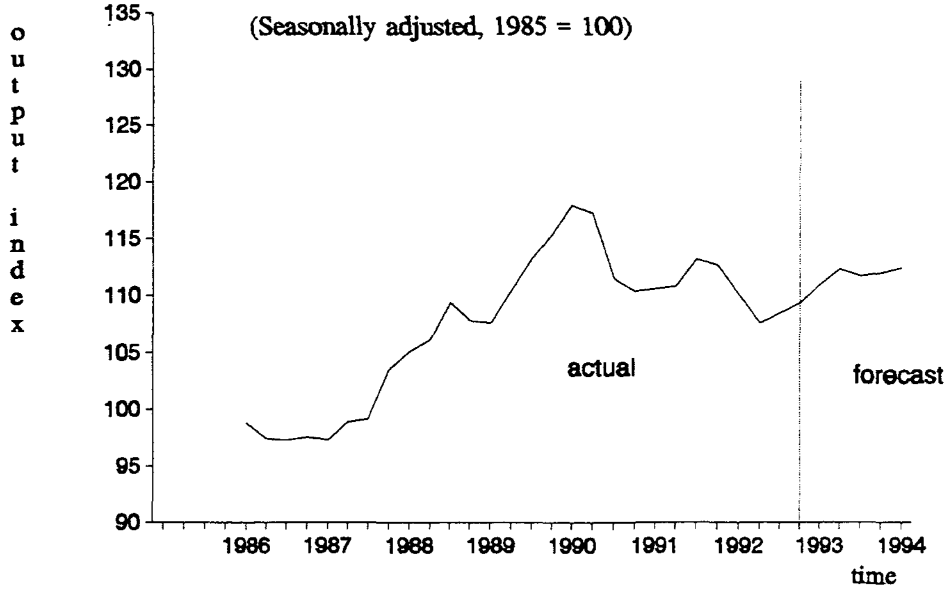
The present forecasting period runs from 1992Q4 to 1994Q1. Figure 1 shows the actual index series from 1986Q1 to 1992Q3 and the forecasts for 1992Q4 to 1992Q1. Further details of the actual and projected indices are shown in Table 1. Although the Scottish output index is predicted to rise again in the final quarter last year, we predict a 2.6% contraction in Scottish industrial output for 1992 as a whole. There are now more optimistic signs about a stronger recovery in 1993 in the UK economy. The National Institute's forecasts for the UK economy in 1993 are apparently more sanguine, which in part lead our model to predicting a 2.6% growth in Scottish industrial output in 1993. It is noted in Table 1 that the model predicts a slight fall in Scottish industrial output in the third quarter of this year. This result should be treated with caution as the properties of the model give a much greater weight to past events. Given the more optimistic signs in the final quarter last year and the first quarter this year as shown in the current Scottish Chambers' Business Survey, we are less inclined to believe that Scottish industrial output will fall in the third quarter of 1993.

TABLE 1. INDEX OF PRODUCTION (SIC DIVS. 1-4)

1991 Q1	110.6
Q2	110.8
Q3	113.2
Q4	112.7
1992 Q1	110.1
Q2	107.6
Q3	108.5
Forecast	
Q4	109.4
1993 Q1	110.9
Q2	112.4
Q3	111.8
Q4	112.0
1994 Q1	112.5
%Change	
91Q4/90Q4	2.1
Forecast	
92Q4/91Q4	-2.9
93Q4/92Q4	2.4
1991/90	-2.1
Forecast	
1992/91	-2.6
1993/92	2.6

* Development of the short-term model of the economy was made possible by the funding of a three-year research fellowship by TSB Bank Scotland.

Fig.1 Output Index for Scottish Production Industries



SCOTTISH CHAMBERS' BUSINESS SURVEY

The SCBS is conducted by the Fraser of Allander Institute in conjunction with the Chambers of Commerce of Aberdeen, Central, Dundee, Edinburgh, Fife and Glasgow and is the most comprehensive regular survey of business, employment and other issues affecting the Scottish business community. Results below are from 1230 firms responding to the questionnaire. The main conclusions from the latest SCBS for the fourth quarter 1992 are discussed below. Further information about the trends at the level of each Chamber can be obtained by contacting the Secretaries of the Chambers directly.

Business Confidence

In Manufacturing, business confidence deteriorated somewhat compared with the third quarter, with a net balance of 4% of respondents reporting that they were less optimistic than three months previously. In the third quarter 1992, confidence in Manufacturing collapsed with a net balance of 26% of respondents reporting that they were less optimistic than in the preceding quarter. In the fourth quarter, Manufacturing respondents were also less optimistic than they were in the same period a year ago with a net balance of 12% of respondents reporting lower optimism. This compares with a balance of 29% of respondents who were less optimistic in the third quarter than in the same period a year earlier.

In Construction, a net balance of 3% of respondents were more optimistic than in the preceding quarter. However, this slight improvement in confidence must be viewed against the background of a severe fall in confidence in the third quarter and the low levels of confidence present in the industry. A net balance of 25% of respondents reported that they were less optimistic than they were a year ago; an improvement of 29 percentage points on the response in the second quarter.

In Distribution, confidence remains at the low levels reached in the third quarter, with a net balance of 1% in both Retailing and Wholesaling reporting a fall in optimism. Both retailers and wholesalers reported a decline in confidence compared with the same period a year ago, with net balances of 18% and 26%, respectively, reporting decreased optimism.

Optimism amongst respondents from the Tourism and Leisure sector continued to fall but much less dramatically than in the third quarter. A net balance of 7% of respondents reported that they were less optimistic about the general business situation than they were three months earlier, compared with a balance of 18% in the second quarter who reported that they were less optimistic. A net balance of 20% of respondents were less optimistic in the fourth quarter than in the same period of 1991.

Orders and Sales

In Manufacturing, orders and sales continue to fall. For orders, a net balance of 8% reported a decrease while, for sales, a balance of 10% of firms experienced a decline. These figures compare with negative balances of 12% and 9%, respectively, in the previous quarter. The decline in orders and sales was, however, confined to domestic UK markets. The decline in Scottish orders and sales continued at much the same rate as in the previous quarter, whereas demand from the rest of the UK, while continuing to decline, did not contract as much. Export orders and sales, on the other hand, exhibited increased buoyancy, with a net balance of 9%, in both categories, reporting an increase over the previous three months.

In Construction, orders again declined but at a slower rate than recorded in the third quarter, with a balance of 20% reporting lower orders compared with 42% in that quarter. Orders from Central Government continue to be the most depressed, followed by other Public Sector orders and orders from the Private sector.

Retail sales continued to contract, and at much the same rate as in the third quarter. A net balance of 10% of retailers reported that sales had fallen, compared with 11% in the third quarter. In Wholesaling, sales continued to fall but at a somewhat slower rate than in the third quarter. A net balance of 14% of respondents reported a decline in sales compared with the 24% balance recorded in the last survey.

Tourism demand contracted more strongly in the fourth quarter than in the third quarter. A net balance of 27% of companies reported a decrease compared with the balance of 7% who reported a decline in the three months to September. The contraction in demand continues to affect all markets, with the rest of the UK remaining the most depressed source of demand.

Stock Adjustments

Stocks of finished goods and raw materials in Manufacturing continue to be run down with net balances of 22% and 22%, respectively, reporting a decline. The rate of contraction has therefore worsened slightly since the third quarter.

Finance and Investment

In the Financial sector, the growth in demand for personal loans has now ceased, with a net balance of 5% of respondents now reporting a fall, compared with a positive balance of 12% in the previous quarter. Advances to the corporate sector continued to increase but at a slower rate than in the third quarter, while the demand for working capital grew at much the same rate as in that quarter. Conversely, the demand for finance for investment in buildings, and plant and equipment continued to decline but at a somewhat slower rate.

Manufacturing investment intentions in plant and machinery neither increased or decreased on balance in the current quarter, since respondents reporting an increase equalled those reporting a decrease. There was a further deterioration in manufacturers' investment intentions in land and buildings, with a net balance of 9% of respondents reporting a decline compared with 14% in the third quarter. In Retailing and Wholesaling, the downward revision in investment intentions appears to have ceased with net balances of 0% and 4% reporting an intention to invest in premises. The investment intentions of Construction respondents continue to decline.

Expectations

In most sectors the outturn in the fourth quarter was slightly better, or much the same, as expected in the third quarter. In manufacturing, respondents in the third quarter underestimated the improvement in export performance in the fourth quarter; however, this is hardly surprising given that the majority of firms responded to the third quarter survey before sterling's withdrawal from the ERM.

Expectations for the first quarter 1993 are generally for a continuation of the recessionary conditions but with the rate of contraction less than the outturn in the fourth quarter 1992. Demand is still expected to contract in Construction, Retailing and Wholesaling, but at a slower rate than in the fourth quarter. Tourism respondents also expect demand to deteriorate further but at a slightly faster rate. Manufacturers, on the other hand, expect demand to stabilise with exports continuing to pick up.

Chambers of Commerce Areas

With the recession tightening in Scotland, the Aberdeen area did not perform as strongly in relative terms as in previous quarters. Aberdeen continues to perform relatively well in Construction, but poorly in Retailing and Tourism. Fife performed strongly in Manufacturing - where orders and sales displayed a positive net balance - and Tourism. Economic activity in Glasgow and Edinburgh during the fourth quarter was not strong, although demand was relatively buoyant in the Distribution sector in Edinburgh.

PRIMARY

FISHING

In 1992, the volume of landings by UK vessels for the major classifications of fish demersal and shellfish was lower than for 1991. Moreover, the price realised for these species also fell, resulting in the value of landings for both species being 9% less than in the previous year. The reverse situation held for pelagic fish, where both the volume of landings and price rose, generating a 7% increase in the value of pelagic landing. Whilst pelagic fish are the dominant species by weight, so that the total weight of fish caught increased, they are the least important by value, so that the total value of fish landings, at £246,836,000 was 7% lower than the corresponding figure in 1991.

Amongst individual species, haddock and cod are the most important by value. A major reduction in the price of haddock meant that whilst the weight of landings remained virtually unchanged, the value fell by over a quarter, from £49,924,000 in 1991 to £36,635,000 in 1992. Cod fared rather better, with price remaining constant though there was a 6% reduction in the weight of landings. Amongst other demersal species the value of landings of saithe fell by over a third, partly due to lower prices, partly lower weight of landings. On the other hand the value of Monkfish landed rose 13%, from £21,510,000 in 1991 to £24,269,000 in 1992.

For the pelagics, a 19% increase in the weight of landings and a 3% reduction in the price of mackerel generated a 15% increase in the value of landings for that species, which more than compensated for the 7% reduction in the value of herring landings generated by a 5% reduction in weight and 2% reduction in price.

In the case of shellfish, Norway lobsters are the most important species by value and this species also had the largest absolute fall in the value of landings over this time period, an 11% decline to £31,307,000 caused almost wholly by a reduction in their price. The value of landings for lobsters also fell substantially though in this case due to a decrease in the weight of landings as the price actually rose slightly. Some individual species did exhibit spectacular increases in the value of landings: pink shrimps and squid, for example. However, this failed to offset the more substantial falls in income in the more predominant species.

Whilst the value of landings by UK vessels fell by 7%, that of foreign vessels rose by 154%, so that the value of total landings (UK and foreign boats) in Scotland declined by 4% though the total weight of landings was up by 8%. Landings by foreign vessels now make up 9.5% by weight and 6% by value of total landings in Scotland.

CONSTRUCTION

The latest index of construction figures estimate that Scottish construction activity increased by 3.8% in the third quarter 1992 to stand at 112.5, from a revised figure of 108.4 in the second quarter. Over the same period the UK is estimated to have fallen by 0.9% to 115.2. The year on year figures suggest an increase of 3.1% in Scotland, compared with a UK fall of 6.4%.

According to Scottish Chambers' Business Survey (SCBS) respondents, optimism in the construction sector improved during the fourth quarter 1992, but remained low; with a net of 3% of responding firms reporting an increase in optimism compared to a negative balance of 35% in the previous quarter. However, a net 25% of firms still claim to be less optimistic than they were in the fourth quarter of 1991.

The trends in orders remained low, despite a slight slow down in the rate of contraction. The continuing depression in new orders was most marked in public sector orders. The first quarter 1993 is expected to show a continuing slight improvement, although still remaining negative. The most likely limit to output is reported as a lack of orders.

Average capacity utilisation increased by 4% in the fourth quarter, although work-in-progress was less

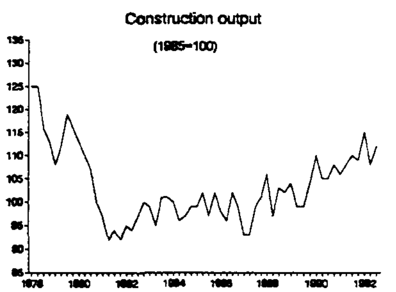
FIGURE 1 FISH LANDINGS IN SCOTLAND: JANUARY TO DECEMBER 1992 - COMPARED WITH JANUARY TO DECEMBER 1991

Landings by UK vessels	JAN TO DEC 1992			92 PER CENT OF 91		
	Weight Tonnes	Value £000s	Price £/T	Weight %	Value %	Price %
Demersal	161,850	163,121	1,008	94	91	96
Pelagic	233,097	26,680	114	108	107	98
Shellfish	44,714	57,036	1,276	797	91	94
Cod	30,651	40,707	1,328	94	94	100
Haddock	42,980	36,635	852	99	73	74
Whiting	31,727	17,596	555	96	97	100
Saithe	8,637	4,295	497	76	66	86
Dover Sole	54	193	3,574	123	133	108
Hake	1,715	2,851	1,662	86	82	95
Lemon Sole	2,466	4,820	1,955	79	88	111
Ling	3,671	3,390	923	126	132	105
Megrims	2,441	4,642	1,902	95	116	122
Monks	9,284	24,269	2,614	105	113	107
Plaice	7,380	7,347	996	95	82	87
Skate	3,229	2,337	724	93	107	115
Sandeels	4,152	185	45	50	47	94
Dogfish spur	7,012	6,508	928	113	116	103
Witches	1,718	2,186	1,272	85	85	100
Mackerel	140,685	17,471	124	119	115	97
Herring	83,710	8,589	103	95	93	98
Brown Crabs	4,242	3,781	891	77	73	94
Green Crabs	379	185	488	102	104	102
Velvet Crabs	1,971	3,520	1,786	113	105	93
Lobsters	416	3,738	8,986	61	64	105
Pink Shrimps	116	98	845	215	192	89
Squid	1,069	1,499	1,402	122	158	130
Scallops	4,947	7,924	1,602	126	114	90
Norway Lobsters	17,697	31,307	1,769	98	89	90
Queen Scallops	5,516	1,915	347	112	104	93
Periwinkles	1,817	1,081	595	88	92	104
Total by UK vessels	439,661	246,836	561	102	93	91
Landings by foreign vessels	46,043	16,161	351	270	254	94
Total landings in Scotland	485,704	262,997	541	108	96	89

than in the corresponding period of 1991.

Investment in both plant and equipment and in buildings continued to deteriorate compared to the same period of 1991 and is expected to worsen in the three months to March 1993. Of new investment authorised, 46% of respondents cited replacement as the reason.

Total construction employment continued to deteriorate with a net 29% of firms reducing total employment levels and a further net of 22% expecting a fall in their employment requirements during the first quarter 1993.



The latest NHBC applications for housing starts show a fall of 3.8% to 2,600 in the fourth quarter 1992 in Scotland; this compares favourably with the position in Great Britain as a whole where there was a fall of 13.6%. Looking at the year-on-year position shows a fall of 9.4% in Scotland and a lesser fall of only 3.5% in GB as a whole.

The major building societies are reporting house price falls in Scotland for the fourth quarter of 1992 ranging from 4% to 7%. These price falls were spread across all ages of property but were particularly marked in the new property market.

The major shock in the last three months has been Lilley, the Glasgow-based civil-engineering, construction and property group, going into receivership with the potential loss of some 2,800 jobs. It has been known since October 1986 that Lilley was in trouble but it was widely believed that given a chance, Sir Lewis Robertson and James Hann (the Chairman of Scottish Nuclear), the latter only appointed three months previously as deputy chairman and joint acting chief executive, could turn the company around. A new restructuring proposal was put forward before Christmas, involving £12.5 million of new equity, ending the company's exposure to property development and property joint ventures, selling its main housebuilding and plant hire businesses, disposing of its Amvican trading interests (the main source of Lilley's problems) and a partial debt to equity conversion by the banks. This radical plan had the banking of Lilley's Spanish partners (Entrecanales & Cubiertas, who invested £24 million in Lilley nearly 18 months ago), its three largest UK institutional investors and a majority of its banks, but the deal was conditioned on the unanimous support of the group's six banks. TSB and its merchant bank subsidiary Hill Samuel, decided to pull the plug and the rest as they say is history. Price Waterhouse, the receivers, are managing to sell off many of the constituent parts but as is usual in these cases the resultant restructuring is leading to a fall in overall employment.

All is not bad news in the construction industry. Tulloch Construction is continuing to buck the recession with an unprecedented surge in new orders of £20 million to add to what they describe as a "quite exceptional first quarter". Despite Tulloch's north east base the bulk of this new work is coming from their southern division at Uddingston and operating mainly in the central belt.

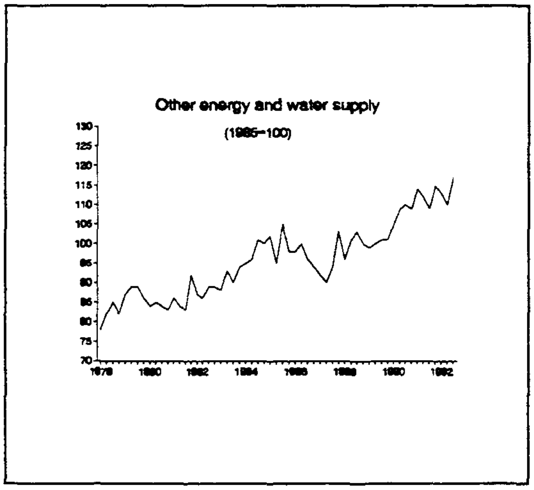
Forecasters are starting to see a light at the end of the tunnel and the modest improvements in the first quarter are expected to continue although true "recovery" is not expected until 1994.

ENERGY

OIL AND GAS

According to the Royal Bank/Radio Scotland Index, the North Sea oil index for January 1993 was 114.5, representing an average production figure of 1.89 mbpd. This was some 5.1% lower than in December 1992, mainly because severe weather offshore led to output reductions in a number of fields, notably Beryl, Ness, Stotfjord and Brent.

Despite a small depreciation in the sterling/dollar exchange rate, the average daily value of North Sea crude fell from £23.1 million in December to £21.3 million in January. The fall in daily oil values was attributable both to the decline in oil output and to a 4% weakening in the price of Brent crude to $17.35 pb, the lowest dollar price since June 1990. The total annual revenue from the North Sea in 1992 was almost £8 billion in current prices. However, as noted in the Royal Bank's December oil review, the real value of North Sea revenues fell by 76% between the peak year of 1984 and 1992.



In late January, energy minister Time Eggar announced that wells drilled in UK waters in 1992 had achieved a better than one in four success rate, higher than the UK's historical average of one in five. However, the absolute level of exploration activity was significantly lower than in 1991.

A recent study by UKOOA suggested that a government ban on the increased use of gas burning for electricity generation could put at risk up to 25 new offshore gas field developments, reducing offshore expenditure by £1-£2 billion per year and causing 55,000 job losses. In the same report, UKOOA estimate that 300,000 UK jobs are based on the UK offshore industry.

COAL, ELECTRICITY AND WATER

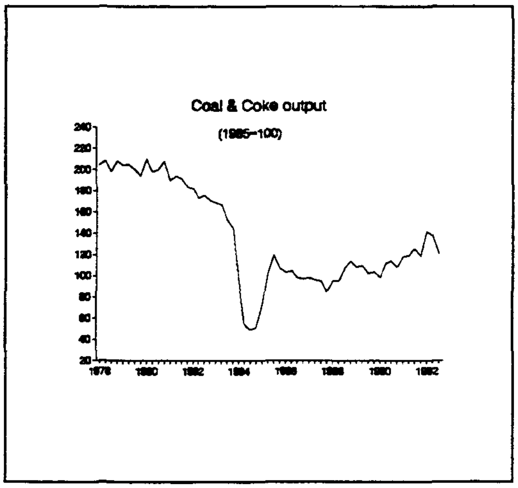
Announcing details of his planned energy review, Mr Michael Heseltine, trade and industry secretary, said it would be wide ranging and open and would culminate in a white paper on energy policy early this year. The white paper, originally promised in February, is unlikely to be published before late March. According to Mr Heseltine, the main purpose of the exercise would be to consider each of the 21 pits left on the closure list, in the context of overall energy policy, including the "consequences of that policy for British Coal and the employment prospects for the industry".

The terms of reference for this review are to include firstly, whether the prospects for coal had been correctly assessed. It will also examine the consequences of the "dash for gas" in power generation and how gas compares to coal in cost and in terms of the size of the UK's gas reserves. Mr Heseltine's own powers to authorise new power stations will also be covered. The opportunities for private sector production of coal and the position of coal imports, regional needs in Scotland, Wales and Northern Ireland and the implications of the statutory obligation on electricity distributers to buy a proportion of power from sources other than coal, oil and gas - including nuclear power - will also be assessed. In accordance with this review, consultations will take place with all the major providers and consumers of energy and other interested parties. Independent consultants have been appointed to report on the prospects for British Coal (BC), to look at its competitiveness and at alternative markets for coal.

The Cambridge-based Caminus Energy, which was one of the 4 firms of consultants asked to advise the Department of Trade and Industry on the technical and economic background to the controversial pit closure plans, have published their report. Figures presented to ministers by the international consultants show that, as sales to power stations in England and Wales steadily decline in the next few years, demand from the electricity supply sector in Scotland is set to double. Within 5 years, the proportion of coal burned in Scotland could rise from less than 5% to at least 10% of the UK total - and even more if high international fuel prices give BC a competitive edge over imports and competing gas supplies increase sales to power stations south of the Border.

The consultants' prediction of substantial growth in Scottish coal burning is not based on any huge surge of demand expected in Scotland, but on an assumption that there will be a rise in "coal by wire" exports of power to England, Wales and Northern Ireland, through a strengthened interconnector grid due to be completed over the next few years. The link to England and Wales will be expanded from a present capacity of 650 megawatts by 1995-96. A 150 megawatt subsea connection to the distribution system in Northern Ireland is due to be in operation by 1997-98.

Whatever the outcome of the Government's energy review, BC's Longannet complex is guaranteed survival as the only remaining deep mine in Scotland, selling the bulk of its output directly by conveyor belt to Scottish Power's adjacent generating plant. The economic case for Longannet is based on the power station's commitment to take a minimum of 2m tonnes of coal per year under a contract which runs to 1994-95. But according to Caminus, total power sector demand for coal in Scotland could rise from the present 3.2m to 7m tonnes by 1997-98, suggesting a substantial gap to be filled by extra sales from Longannet and open cast mines if BC can beat off competition from private coal producers and importers.



Assuming that there are no Government curbs on the further use of gas in power stations, the price of coal from Longannet and trends in international fuel and currency markets, which affect the competitiveness of imports, will determine how the Scottish market will be supplied.

After examining scenarios with both high and low world coal prices, Caminus concluded that Longannet coal costing between £1.40 and £1.47 per gigajoule of electricity produced, would have an advantage over the imported price of £1.63 per gigajoule under its high price scenario. But it also noted that there could be a 15% price advantage for imports under its low cost scenario.

Scottish coal, however, has one advantage which may give it a competitive edge. It has a sulphur content averaging between 0.45% and 0.6% compared with a UK average of 1.5% and higher levels in some of the cheaper imports. Caminus believe that coal with less than 0.6% sulphur could be used at the Longannet power plant without the added cost of fitting desulphurisation equipment, though it was pointed out that similar imported coal was also readily available.

Longannet coal was given the lowest sulphur rating in the study by John T. Boyd, the US mining engineers asked to advise on the technical aspects of BC's proposed pit rationalisation programme. In terms of productivity, Longannet was ranked 10th by Boyd, among the 20 pits which BC planned to continue operating under its original rationalisation programme.

Boyd praised BC's achievement in raising productivity by 234% in the past 7 years but recognised that BC would not reach mining costs as low as those in major coal exporting countries due to "inherent geological conditions, age of existing collieries and operational and statutory limitations which constrain mining in the UK".

As ministers finalised a draft of the white paper on the mining industry, Mr Tim Eggar, energy minister, denied the Government faced a U-turn on the pit closures. The select committee's 300 paragraph report states that there should be no increase in consumer electricity charges as a result of a proposed 5-year subsidy for coal. It expresses a strong preference for raising the funds needed by diverting part of the nuclear levy to coal. As an alternative, the money could be obtained direct from the Treasury. This money would help finance the installation of clean coal technology and subsidise 16m tonnes of extra domestic coal output, enabling BC to deliver it to the electricity supply industry at world prices. The first year cost of the report's proposals is estimated at £300m, of which the direct coal subsidy would account for about £120m, equivalent to £7.50 a tonne. The extra market would be created by postponing the planned liberalisation of the electricity market, giving power companies freedom to sign more long term contracts.

BC has also won, what it claims to be one of the largest industrial coal contracts placed in Scotland, supplying 0.5m tonnes of "washed smalls" to the Tullis Russel papermill in Markinch. Deliveries will be made over the next 3/4 years from BC's open-cast site at Westfield, just 7 miles from the Fife papermaking plant which employs 850 people in the manufacture of printing, writing and specialist technical grades of paper. The contract, which BC says was won against stiff competition, will include installation of equipment to reduce dust emissions in accordance with strict environmental regulations.

A strong sales performance south of the Border, coupled with sharply falling interest costs and lower fuel costs, have sent interim profits at Scottish Hydro-Electric soaring by two-thirds. The pre-tax figure of £40.6m was above all the most optimistic city hopes and analysts have reviewed their full year forecasts up to about £150m. Scottish Hydro-Electric and Arjo Wiggans Appleton are to build a £7.25m combined heat and power station at the latter's mill in Dover. Arjo Wiggans Appleton will use the steam raised in the waste heat boilers in paper production and Hydro-Electric, which is contributing £4m to the project, will sell the surplus electricity to the local regional elecrticity company, SEEBOARD and industrial customers. Construction is to start immediately and the station should come on stream in early 1994.

Total output from Scottish Nuclear, which was formed from ScottishPower in 1989, is moving upwards from 12.7m gigawatts per hour(gwh) to 14.2 gwh expected this year. This recovery in output has helped the company move from a net loss of £32.5m in 1990-91 to last year's profit of £13.7m on sales of £477m. This year's target is a profit of £20m. In the medium term, Scottish Nuclear's financial performance should gain substantially from an initiative proposed by Mr Hann, Scottish Nuclear's chairman. Mr Hann questioned the need for the expensive reprocessing of spent advanced gas-cooled reactor (AGR) fuel. Now in a break with British nuclear industry practice, agreed with BNFL this year, Scottish Nuclear will end reprocessing and store spent fuel at its stations for at least 50 years. Once the stores, each costing about £15m, come on stream in 1995/96, Scottish Nuclear will save about £15m a year. Scottish Nuclear is also trying to persuade the Nuclear Installations Inspectorate to extend the theoretical life of its stations from 30 to 35 years, reducing the annual £65m depreciation charge. This should be achieved during or before the next financial year. The company also aims to lower its cost per unit of electricity and to achieve a consistent 80% load factor, as well as cutting production costs. If these targets are achieved Mr Jeffrey, Scottish Nuclear's chief executive, believes the company would be fit to enter the private sector by 1996 and would like to see the company becoming the "path-finder" for privatisation of the nuclear industry.

A study commissioned by Enron, a US-based company building a £800m power plant based on North Sea gas, suggested that prices for electricity could start to drop later this year as gas makes inroads into the coal-fired generating market. The report suggested that only a ban on coal imports and substantial subsidies for coal would enable BC to forestall the planned reduction in capacity. The report also claimed that moves towards gas burning power plants were made on commercial grounds "based on the fact that even at world prices, gas-fired generation is capable of producing electricity at a lower cost than any other generating technology - partly because gas is 40% more fuel efficient than coal". Pointing out that new independent generators such as Enron were entering the market the study added, "they will be able to exert downward pressure on the general level of consumer prices once the current contracts to supply the electricity companies expire on March 31st".

Professor Stephen Littlechild, the electricity regulator, has published his second and final report on the "dash for gas" policy of the electricity generators. His support for this policy may effectively quash the argument that the growth of cheap gas-fired power stations should be reined back to help boost the demand for coal and save a substantial number of the 31 pits threatened with closure. Although the Government may have already been sceptical that it could stem the "dash for gas", Professor Littlechild's conclusions make it even less likely that it will use legislation to prevent more gas-fired power stations being built.

An issue which previously reared its head in 1978, has become top of the agenda again with health boards in the west of Scotland. Greater Glasgow health board has voted unanimously to ask Strathclyde Region to add fluoride to the City's water supplies, after medical specialists rejected claims that it could lead to an increases in illnesses, including cancer. Lanarkshire health board has voted for fluoride, Arglle and Clyde is expected to follow suit, with Ayrshire and Arran backing the move later on this month. The boards, however, face a difficult task in persuading Strathclyde Region to implement the 1 part fluoride per million parts water recommendation, in view of the likelihood that the majority of the region's 103 councillors, 87 of them Labour, are likly to reject them.

As political opposition to the privatisation of the Scottish water industry intensifies, Strathclyde Regional Council has said it will put the Government's plans for the water industry to a referendum of its 1.7 million voters once they are finalised. Lothian Regional Council is also preparing to organise its own ballot and attempts are beind made to persuade other local authorities to take similar action. Unofficial estimates have put the cost of a referendum at about £500,000.

In its submission to the Scottish Office on the water industry, the Accounts Commission has said that the control of water and sewerage services in Scotland must remain in the hands of local authorities. However the Commission, set up by the Government as an independent public watchdog on council efficiency and value for money, asserts that there is plenty of scope for partnership with private firms, in the form of construction of capital projects and in the day to day running of services.

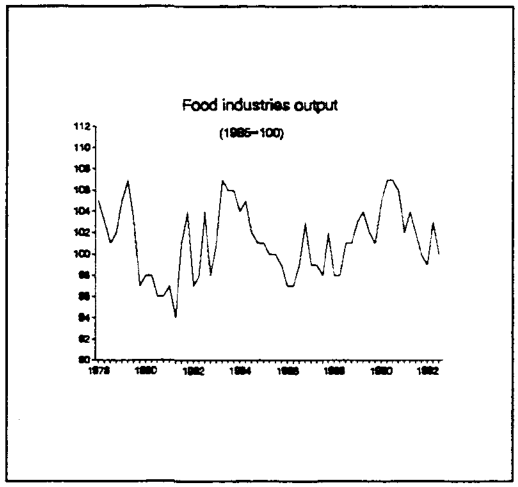
At the other end of the spectrum, Gleneagles water, the Scottish bottled water company has announced that its majority shareholder is to be the drinks group, Allied-Lyons. The new company is due for its full launch in May, though test bottling is currently taking place. Gleneagles Water could become the dominant Scottish bottled operation in terms of output with a potential from its two underground springs of 250 tonnes per hour. Allied-Lyons has taken a majority stake through its food distribution subsidiary Lyons Tetley. The £10/12 million investment will take place over the next 3/4 years.

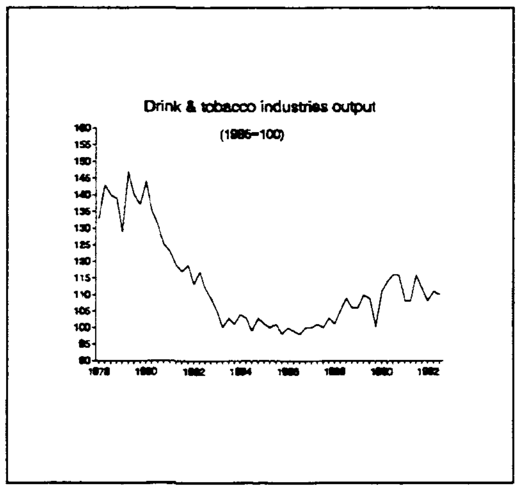
MANUFACTURING

FOOD, DRINK AND TOBACCO

The encouraging 4% rise in output in the food industry in the middle of last year noted in the previous issue of this Commentary has unfortunately been almost wiped out by a 3% reduction in the third quarter of 1992. Over the year to the third quarter, industry output is down marginally by 1%, returning industry output to the level recorded in 1985. The Drinks section also recorded a small 1% drop in output during the third quarter, down 1% to stand 2% down on the year to the third quarter.

The Scottish Chamber Business Survey results for the final quarter of last year also make rather dispiriting reading. Almost half of the survey respondents feel less optimistic about business prospects than they felt one year previously and one third reported a falling trend in new orders during the final quarter, with most of the downturn occurring in local orders. Similarly, just over one third reported sales falling in both Scotland and elsewhere in the UK, and 78% of companies cited lack of orders on sales as the factor most likely to limit output in the next few months compared with, for example, only 2% who cited the lack of suitable labour. Indeed, 35% of companies reported a downward trend in employment during the final quarter. Overall, the industry was working at only 72% of capacity.

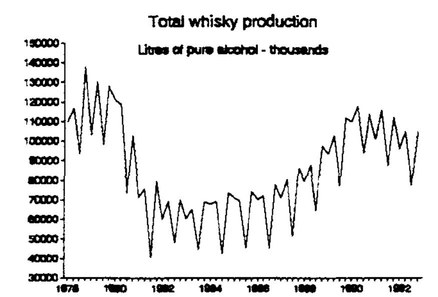




WHISKY

Recents events in the whisky industry are a mixture of the good, the bad and the angry. The good news comes from export figures for 1992, which indicate the first rise in total whisky exports by volume since 1988. Exports rose by 1.5% to 231.3 million litres of pure alcohol (LPA); bottled-in-Scotland blends, the largest element of total exports and the highest value-added component, rose by 1.9% to 170.6 million LPA. At the same time, however, sales in the UK continued to plunge, falling by almost 10% in 1992.

There is evidence that production has continued to decline as efforts are made to bring supply back into line with demand. In the twelve months to December 1992, overall production of Scotch whisky fell by 8.0% to 383.5 million LPA, following an earlier decline of 4.4% in 1991. This is the first time in a decade that there have been consecutive annual declines in production. During 1992 production of malt whisky fell by 10.6% and grain by 5.9%.



And there is clearly more to come, as indicated by the rationalisation plans announced in January by United Distillers. Five distilleries (one grain and four malt) and three bottling plants will be closed by 1995, with the loss of 700 jobs. Production of malt whisky will cease at Pittyvaich, Balmenach, Rosebank and Bladnoch, leaving the group with 27 working malt distilleries. The closure of the Cambus grain distillery will leave UD with two grain distilleries, and packaging operations will cease at Perth, Broxburn and Leith. It is estimated that these closures will reduce industry capacity by 2.5% in malt whisky and 7% in grain. At the same time, UD is continuing to upgrade its facilities at its remaining sites. UD has placed the emphasis of these measures on rationalisation and increased internal efficiency, but the closures must also reflect a recognition that world demand for whisky is not as buoyant as the company might have hoped. The situation has certainly changed from 1989 when UD announced a massive investment plan designed to upgrade all its facilities, allowing the company to double its capacity for malt whisky production by 1992.

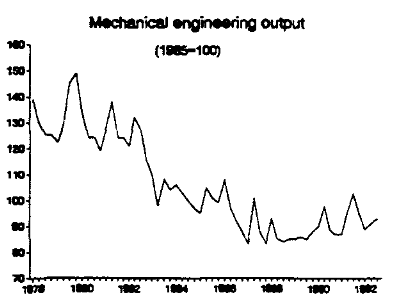
So much for the good and the bad. The angry element comes from renewed lobbying of the Chancellor of the Exchequer to relieve the perceived duty discrimination against whisky within the UK market; for example, per unit of alcohol spirits attract twice the rate of tax of wine. As usual, the Scotch Whisky Association is leading the fight, but on this occasion they are supported by, among others, Lothian Regional Council, concerned that the decline in home demand for whisky may be jeopardising jobs in the region. The material released by the SWA is rather confusing, however; it is unclear if the argument is that the <u>absolute</u> level of excise duty is causing demand to decline, or if the competitive position of whisky (and other spirits) is suffering relative to other alcoholic drinks as a result of the tax <u>differentials</u> outlined earlier. Whatever the merits of the case, a period of burgeoning fiscal deficit does not seem an auspicious time to press for fundamental tax reform; unless, of course, it is the lobbyists intention to convince the Treasury that this will result in a net increase in tax revenues.

MECHANICAL ENGINEERING

Both the Business Survey and official data showed a mixed fortune for the industry in the second half last year. The seasonally adjusted output index in the third quarter gained a further 2.2% over the second quarter, following a 2.2% gain (revised official data) in the second quarter. The latest Business Survey by the Scottish Chamber of Commerce/Fraser of Allander Institute shows obvious improvements in business confidence, the total volumes of new orders and sales, although these still remain depressing.

In the latest Business Survey, a balance of 13.8% of corresponding firms were less optimistic about the general business situation. This compared favourably with the 26.4% who were less optimistic in the third quarter. Compared with the same period a year ago, a balance of 32.9% of firms were less optimistic about the general business situation.

The actual performance of the Scottish mechanical engineering industry, in terms of new orders and sales in the final quarter, was less depressed than had been expected by the corresponding firms in the previous survey. For example, the previous survey showed a net 34.1% of firms expected a decline in the total volumes of new orders in the fourth quarter. The actual outcome is that a net of only 19.7% of firms reported a fall in total new orders. However, it should be noted that the domestic Scottish and UK markets are still deeply depressed, with nets 30.8% and 23.1% of firms reporting a reduction in new orders from Scottish and the rest of UK markets respectively. This pessimism about the domestic markets still holds for the first quarter this year. The same is true for domestic sales.



An encouraging sign is reflected in the expected export orders and sales in the first quarter this year. The survey showed that nets 16% and 4.2% of firms expect new overseas orders and sales to rise respectively.

The trend of running down on the stock of finished goods, work in progress and raw materials continued and is expected to continue, in a large proportion of firms in the first quarter this year. This is a typical phenomenon during a recession. There was a further fall in capacity utilisation rate in the final quarter last year, down from 73.2% in the third quarter to 70%. The firms' investment intention was still very low. Although slightly more firms will commit investment in plant and equipment in the first quarter this year, there is no sign at all of a recovery. For those which have invested the main incentives were increased efficiency (35.7%), replacement (26.2%) and capacity expansion (14.3%). A glimpse of hope is that the proportion of firms which have invested to introduce new technology is rising, from 5.9% in the third quarter to 9.5% in the final quarter last year.

The reduction of total employment worsened in the fourth quarter last year, with a net 21.2% of firms reporting reduction compared with 11.4% in the third quarter. This downward trend is expected to continue in the current quarter in a net 8.4% of firms. The worst hit were part-time, male and sub-contracting workers.

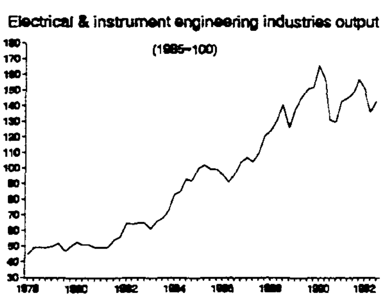
The restraint on increases in wages and salaries was even more severe than in the third quarter. On balance, a net 79% of firms did not increase wages and salaries. In the 10.5% (20.2% in the third quarter) of firms which granted increases, wages and salaries rose by 4.4% (6.1%). Employment prospects in the mechanical engineering industry remain bleak as a net 42.6% of firms did not attempt to recruit new staff. However, more firms are willing to provide training and firms which attempted to recruit new staff did not experience difficulty generally.

From the evidence available, it is clear that the Scottish mechanical engineering industry is still adjusting to the recession. The focus is still on the improvement in efficiency and productivity, which has an adverse implication for employment prospects over the coming months.

ELECTRONICS

As measured by the Scottish Office Index of Production, output in the electronics industry in Scotland grew by 5% in the third quarter of last year, a welcome change in the 10% reduction recorded in the previous quarter. In the year to the third quarter, the industry also recorded positive growth, up 4% on the previous four quarters, which is of some significance given the severe economic problems which have affected the industry globally. It is also significant that the industry in Scotland outperformed the UK industry, where output fell by 2% in the year to the third quarter. However, with the value and the Index in Scotland currently standing at 143 (1985=100), output is still some way below the peak level of 166 recorded in early 1990. The variable quarterly output performance of the sector (see graph) is also a source of some concern.

The January results from the Scottish Chambers' Business Survey (SCBS), carried out in the fourth quarter of last year, also reveal a good deal of uncertainty surrounding the industry's short term prospects, although there are also some limited grounds for optimism. For example, while 81% of respondents continue to cite lack of orders as the factor most likely to limit output in the current quarter (compared to, for example, 6% who cite lack of skilled labour and 3% citing capacity), the balance of optimism in the industry has increased, with 28% reporting increased optimism against 18% who felt less confident about short run prospects 42% of companies also reported increases in export orders and in the last quarter and there was a notable downward shift in stock levels. Currently, however, the industry is still only operating at 75% of capacity.



Despite the above, the industry's main problem remains simply that of the global recession in electronics and the severity of this was underlined by the huge losses posted in January by IBM. The company's net deficit of £4.96bn (£3.06bn) is thought to have been the biggest loss ever recorded by any company in history, and it has announced plans to shed around 25,000 jobs during the course of 1993. While around 1,000 of these will come in its UK operation, IBM has announced that the rationalisation process does not pose a threat to its main Scottish facility, the PC manufacturing plant at Greenock, which currently employs 2,400. In fact, it is possible that Greenock may even benefit from IBM's troubles. IBM's reorganisation into a "federation of increasingly autonomous and independent business units" which it began to put into place last year has left the Greenock plant under the control of one such unit, IBM PC, which has refocussed its strategy in orders to allow it to seriously attack Far Eastern and other "clonemakers", who have continually evaded its market share over the last decade. The company has introduced a new range of cheaper PC and portable computers to compete with the clonemakers and there was reportedly a sizeable surge in output at Greenock towards the end of last year.

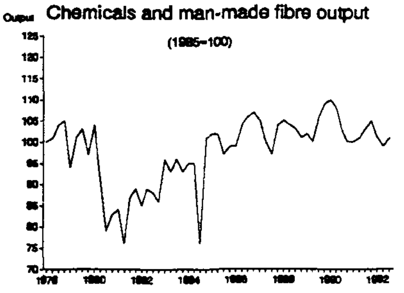
The problem of recession is further exemplified by the recent decision of Digital, the world's second largest computer manufacturer, to close its plant at Galway in Ireland. Like IBM, Digital has also recorded record losses recently and, for example, lost $1bn in the second quarter of 1992 alone. Clearly, however its decision to favour its Ayr plant over Galway could bring benefits to Scotland, albeit at the expense of the Irish. Complaints regarding financial inducements made by the British government have been passed to the EC Commission by the Irish, although there appears to be no real foundation to the allegations, which the British have strenuously denied. In fact, it is almost certainly the case that Scotland's more developed electronics infrastructure and the proximity of the Ayr plant to Digital's South Queensferry semiconductor facility played a more significant part. Digital places great store in the possibilities which are inherent in its new Alphachip which will eventually be used in all its PCs, and which was developed at South Queensferry.

Elsewhere, there has been the welcome news of expansion plans by Motorola, who have made an application to expand its cellular telephone factory at Bathgate. The company has lodged plans to increase capacity by almost 60% and to increase the workforce from the current 900 to 1,500 by the end of 1994. The expansion at Bathgate follows Motorola's decision, announced last year, to site a new development facility at Livingston.

CHEMICALS AND MAN-MADE FIBRES

The Scottish chemicals and man-made fibres industry showed a rise in production in the 3rd Quarter of 1992 according to the latest index of Production and Construction released by the Scottish Office. Quarter on quarter production rose by 3% in Scotland, compared to no change in the UK as a whole. However, the situation is reversed, with the UK as a whole showing growth of 3%, and the Scottish sector no change. The Quarter 3 figures still leave the Scottish sector barely 1% above the 1985 production level.

Despite this news, the latest Scottish Chamber Business Survey (SCBS) for the period October 1992 - January 1993 still shows a net balance of respondents showing less optimism. The negative balance has, however, fallen markedly to 4.1%, compared to 19.4% in the previous quarter and 12.7% a year ago. Actual trends of orders and sales continued to show a decline in the last quarter, with negative balances of 11.6% and 3.9% of respondents. However expectations of trends for the next quarter are positive. The 11.6% balance expecting increased new orders shows this evenly spread between the Scottish and UK economies and through exports. However, the balance of 4% expecting more sales shows optimism coming from the UK as a whole and exports, with Scottish sales still falling.



The general rise in expectations in this sector is reinforced by a net balance of 8.4% showing increased utilization of capacity, now standing at 76.6%. There is also a positive balance of 13.1% showing an increase in investment in plant and machinery last quarter, with a positive balance for expectations to increase investment next quarter running at 9.1%. Of those carrying out investment, 21.4% are expanding capacity. However, 78.3% of employers still see jobs and orders as limiting output next quarter, showing how these small increases are hardly the signs of a strong recovery, but rather an easing of the recessionary pressure on the companies.

This is supported by information on the jobs front where a net 15.6% of firms reported total employment falling. In the present quarter this trend expected to continue. Though no firms saw short-time working increasing, and 18.2% saw it fall, the actual trend in overtime saw 15.4% of firms reporting a fall in the level worked, with 19.2% expecting this to continue.

Generally the picture is mixed. Performance has been poor, but expectations are rising, though not enough to see employment increasing, or even holding steady.

On more specific terms, good news arrived this month, with an American company VRG International deciding to set up in Livingstone, despite having more financially lucrative offers from elsewhere. The company which tests new drugs is hoping to run joint projects with local hospitals, to use their accommodation for trials in return for cash remuneration for the local hospital. When fully set up the centre will co-ordinate trial results from around Europe and employ up to 300 people.

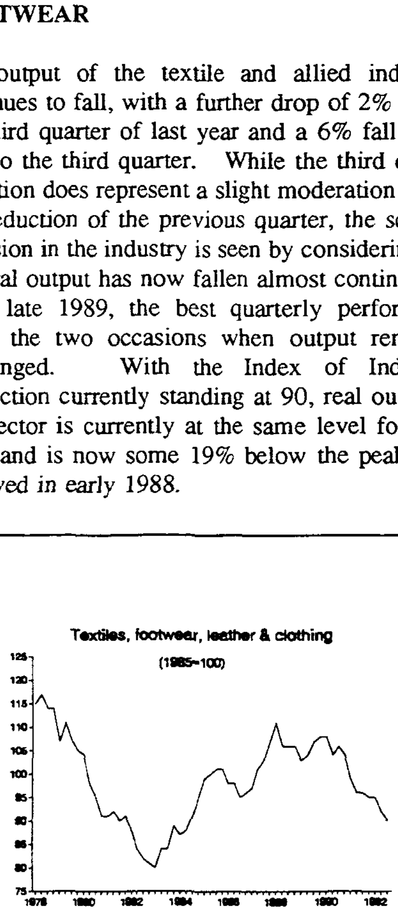
The main national news in this sector, was the announced demerger of ICI, with one half, ICI, covering the high turnover, low profit areas of paints chemicals and materials, together with explosives and regional business, and Zeneca, a biochemistry specialist company, covering pharmaceuticals, agro-industry, speciality products and other goods. The announcement coincided with the announcement of losses of £384m, after extraordinary costs, and pre-tax profits of £565m. The move is aimed at forming two core companies; ICI with turnover of £8.89bn and trading profits last year of £148m and Zeneca; with turnover of around £3.98bn and trading profits of £587m. The announcement was accompanied by the news of 9,000 job losses, half in the UK (about 10% of the workforce), and the ending of investment in petrochemicals. The split will also be accompanied by a £1.3bn rights issue.

Meanwhile ICI has nationally instigated a program of reforming job practices in return for wage rises of up to 14.5%, which will be self financing from efficiency improvements, and comes on top of the 5.1% wage rise negotiated last June and the 3.5% the following month as part of a profit sharing scheme.

A potentially damaging trade has opened up in the Europe pharmaceutical industry as the result of 1992. With trade barriers now down, parallel trading has started to increase. As governments tend to fix the price they will pay for drugs, large differences are present in the prices paid for drugs throughout Europe. Countries like the UK with a large pharmaceutical industry tend to support them by paying higher prices, whilst countries like Greece, with no major countries in this sector, demand lower prices, as their first priority is budgetary implications. As a result drugs are being sold to some European countries, repackaged, and sold back, undercutting the home market. At the moment this accounts for only 2% of the European market but the worry is that in the long term this trade may undermine profit margins and thereby restrain R&D expenditure.

TEXTILES, LEATHER, CLOTHING AND FOOTWEAR

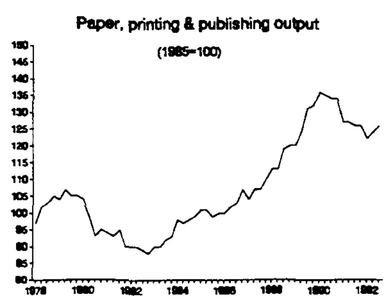
The output of the textile and allied industries continues to fall, with a further drop of 2% during the third quarter of last year and a 6% fall in the year to the third quarter. While the third quarter reduction does represent a slight moderation on the 6% reduction of the previous quarter, the scale of recession in the industry is seen by considering that sectoral output has now fallen almost continuously since late 1989, the best quarterly performance being the two occasions when output remained unchanged. With the Index of Industrial Production currently standing at 90, real output in this sector is currently at the same level found in 1984 and is now some 19% below the peak level achieved in early 1988.



Despite this, the results of the January Scottish Chambers' Survey appear to show some limited grounds for optimism regarding the sector's short term outlook. Over one third of respondents reported that orders had increased during the final quarter of last year, and 41% reported an improvement in orders compared to the position in 1991. The most important source of new orders were export markets. The trend in sales had also improved in over one third of respondent companies, with export sales again the most important source, and around 40% reported a decrease in stocks during the final quarter. And while over 60% reported no plans to increase investment in plant and equipment, almost one quarter had revised investment intentions upward during the last quarter compared to just 13% who had reduced the intention. However, while there may therefore be some grounds for a limited increase in optimism, it is still the case that 70% of respondents felt that a lack of orders remains the factor most likely to restrict output in the short-term. Given the scale of recession noted above, there therefore appears to be some way to go before the industry returns to its previous level of activity.

PAPER, PRINTING AND PUBLISHING

The latest Index of Production and Construction which refers to the third quarter of 1992, indicated a 1% decline in production in the Paper, Printing and Publishing sector since the second quarter of 1992. Since the third quarter of 1991 output has declined by 3%.



Evidence from the latest Scottish Chambers Business Survey reported a slight net increase in optimism in the third quarter of 1992. Total new orders rose for a net 12% of firms although there was no change in the total volume of sales.

Investment in plant and equipment increased for a net 6% of firms, since the last quarter. However 6% also expected a decline in the fourth quarter.

Total employment decreased for a net 23% of firms, with this trend expected to continue into the next quarter. One third of firms have sought to recruit staff in the third quarter, with 25% of these firms reporting difficulty in recruiting professional and managerial employees.

Lonrho, the international mining and trading group announced a 61% fall in annual profits and a slashed dividend. The pre-tax profits of the group, headed by Roland "Tiny" Rowland fell from £205m to £80m in the period September 1991- 1992. Sales of business concerns including publishers George Outram and The Scottish and Universal Newspapers Group have eased Lonrho's burden of debts.

The "Daily Record", Scottish subsidiary of the Mirror Group newspapers has abandoned £115m plans to re-develop its Anderson Quay headquarters, in Glasgow. Managing Director Murdoch MacLennan announced that the company will move printing operations to the outskirts of the city, in a deal expected to be less expensive than the original re-development plan. The move is expected in 1994.

SERVICES

FINANCIAL SECTOR

Criticisms of the banking sector continue to dominate the financial press. Hardly a week passes without some sort of complaint against the charges levied on customers or the incompetence of their senior management with most banks, including those based in Scotland such as the Royal Bank, the subject of complaint. The dramatic losses caused through poor lending decisions have undoubtedly forced the banks to look for areas from which they can squeeze extra profits. At the same time the earning power to the banks of the idle money balances held by customers in non interest bearing accounts is much less valuable than formerly. The fall in interest rates has reduced the value of this 'endowment' to the banks and put an additional pressure on profits at the same time as they have been trying to rebuild their lending portfolios and profit margins, damaged by defaults by both companies and individuals.

The banks have not been totally quiet under this barrage of complaint. An end to cross-subsidisation has been their cry and has generally been used as the justification for imposing charges whenever possible. The ending of cross-subsidisation is presented as a clear cut objective against which it is irrational or just plain senseless to argue. It is merely reasonable, it is argued, that customers, whether companies or individuals, should pay the appropriate amount for the services that they use. If personal customer business makes a loss then personal customers should be charged more, and indeed making the argument more specific, if mortgage loans pay too little to cover their full cost then charges should be increased. Such arguments attempt to persuade us that the costs and benefits attached to a bank's activities are always plain to see. The reality is very different. The mortgage account is a good example. Many mortgages are sold with insurance of one sort or another. Life assurance, buildings cover, contents insurance and payment protection schemes are all common examples. The mortgage itself may be unprofitable but the transaction as a whole may be very satisfactory to the bank. Similar arguments are easily made for many other types of accounts with personal customers particularly as the banks typically see their banking customers as a conduit into a wider financial services market.

Of course, the banks are fully aware of all these arguments. They know that cross-subsidisation is difficult to quantify and that such subsidisation, particularly between the present and the future, is necessary but so long as not too many customers stop using the bank's services they are happy to justify their increased charges with such rhetoric. If all their main competitors copy their actions there is little that the banking consumer can do. The automatic imposition of large charges on accounts that deviate even slightly from the exact terms and conditions, together with the issue of a standard warning letter (suitably charged for), appears very difficult to justify. Customers rightly feel that they are being exploited. High additional charges dressed up with incomplete rationalisations are met with the scorn they deserve. In the short term the options open to customers may be limited. In the longer term competitors, whether other banks or alternative financial institutions, will undoubtedly benefit. It is difficult as a bank's customer to give much credibility to its declared intentions of building long term relationships with customers when small errors result in relatively massive charges. Are these charges really a sound, long term investment for the banks?

If assessing the reasonableness of the cross subsidisation argument is difficult with personal customers, the problems multiply with businesses. A major cause of the problems the banks now face was their willingness to lend in highly geared situations. Their assessment of the risks was extremely poor and the consequent risk premium added to their base interest rates far too low. Unwilling to repeat past mistakes they are now either retreating from almost all new lending which has significant risk attached to it (the exception to this is existing overdrafts which pose particular problems), or are demanding very high risk premiums in order to protect themselves, either directly through interest rates or indirectly through higher charges for bank services. Just as the cost of capital for some companies was certainly too low in the 1980s, it is now almost certainly too high. The difficulties in securing funds are particularly acute for small companies where the problems of estimating the risk of the firm are greatest. The tendency is for banks and other lenders to demand interest rates far in excess of what is required to compensate them for the risk they are assuming, or if the interest rates are moderate to tie the companies into banking services that are expensive for the firm and very profitable to the bank. Reduced overdraft limits and higher bank charges do not seem uncommon at the present time. The pressure on charges from competition anxious to provide competing quotes to take the business is small or in many cases almost non-existent. Other banks, worried by possible bad debts, are reluctant to become involved in situations where their information is poor. The change in the size of the risk premiums being demanded, although understandable, is particularly devastating for the economy as a whole. Current views of financial markets have been predicated on the belief that through competitive forces investment should flow to the most profitable activities. In such circumstances resource allocation will be optimal and lead to the fastest growth and other desirable ends. If however, difficulties in assessing risk lead to excessive lending to some companies, particularly property companies in periods of boom and monetary expansion, and very little lending to other companies, particularly small firms, in periods of recession, the resource allocation process may be seriously flawed. Too many resources flow into property and too few perhaps into the smaller firms that represent the growth opportunities across the economy as a whole for the future. It is dangerous to generalise simply on the basis of recent experience but one can not help but be concerned for the future.

Recently the banks have been suggesting that the government should provide a 'loan support scheme' to provide subsidies to cut the price of banks' medium and long term loans to small businesses. Whilst perhaps attractive such a scheme is fraught with difficulties. It is not clear that subsidised lending is necessarily the best way of helping small firms whilst if our argument is correct that risk premiums over react, increasing too much in recession and falling too far in periods of boom, then a subsidy might accentuate the problems in periods of growth and simply allow the banks to secure higher interest payments in periods of recession. The problem of small business finance has been known to us for more than 60 years. It is not easily resolved and simple schemes of this type should be treated with caution. It might help the banks but it is not obvious that it is necessarily to the advantage of small business.

The problem of losses and non performing loans is not confined to the banks. The commercial insurers have also had their share of problems. Guardian Royal Exchange's problems have probably been most public but companies such as General Accident continue to report losses. Although underwriting has been the main cause of loss for General Accident it is of particular interest that its estate agency activities reported losses of £18.8m. The losses are relatively small compared to the £138m in goodwill write offs and restructuring costs at the Abbey National for its estate agency business, or compared to some of the earlier losses made by the Prudential and others, but such losses do inevitably invite questions about the quality of the management and the strategy that led to their purchase. Increasingly, demands are being made for the resignation of the more senior directors involved in these enterprises. It is proper that management should bear some of the consequences of their actions but it would be even better if they had never happened. Are we going to see Abbey National selling off Scottish Mutual in a few years time as another failed attempt at expansion and diversification?

DISTRIBUTIVE TRADES

Evidence from the Scottish Chambers' Business Survey showed that the balance of optimism in the wholesale distribution sector remained negative with a net of 1% of respondents claiming to be less confident. A net of 26% of firms were less optimistic than was the case in the fourth quarter of 1991.

The trend in total orders continued to decline for a net of 14% of firms and a balance of 8% of respondents expect a further decline in the first quarter of 1993. 51% of firms expect credit facilities to be the single factor most likely to limit sales during the three months to March 1993.

WHOLESALE OPTIMISM

Chamber Area	Net % more optimistic Quarter 4 1992	Quarter 3 1992
Fife	-40	-62
Central	0	-20
Edinburgh	+22	-50
Aberdeen	+9	-37
Glasgow	-6	-45
Dundee	-19	-53
All Chambers	-1	-44

Retail optimism continued to decline although the rate of decline slowed somewhat in the fourth quarter. A balance of 18% of firms were less optimistic than in the fourth quarter of 1991.

The trend in total retail sales continued to decline and an net of firms expect a further decline in the three months to January.

RETAIL OPTIMISM

Chamber Area	Net % more optimistic Quarter 4 1992	Quarter 3 1992
Fife	0	-32
Central	+20	-36
Edinburgh	+12	-12
Aberdeen	-19	-19
Glasgow	-3	-20
Dundee	-12	-34
All Chambers	-1	-24

W H Smith reported a 20% slump in profits in the six months to 28 November. The Do It All part of the business saw losses increase from £900,000 to £8.4 million. The Our Price record chain also reported a small loss. The main news, cards and books business of W H Smith achieved good sales increases and Scotland has remained a bright spot throughout.

TRANSPORT

The important issues of the first quarter have occurred in the railway and shipping industries. The future of British Rail has been set out and the effects of greater competition in the Cross Irish Sea ferry business are beginning to show themselves in the job centres of Stranraer.

The Railway bill has outlined a set of proposals for the future of both track and train operators, which it hopes will receive royal assent by October. It follows that the government plans to separate responsibilities for the operation of freight and passenger services and the UK track system. It's immediate intention is to break up Intercity, by franchising out the Edinburgh-London, Gatwick Express and Network South East lines on a 'lowest required subsidy' basis. Freight business will then be sold off to interested parties. In addition, control of the track is to pass from British Rail to Railtrack UK, a government owned company in April 1994, which will be required to work on a commercial basis, earning a return on its assets by charging for the use of its lines.

The Scottish dimension to the plan revolves around the Glasgow-Edinburgh Scotrail line, which has just undergone a £500 million modernisation programme, and the lucrative Edinburgh-London Intercity 225 line. The bill looks forward to a private company operating on this north-south line by April 1994. In the meantime, the East-coast line from Glasgow to London, which faces closure unless urgent modernisation with an eye to passenger safety is undertaken, will be retained within the Intercity network.

The future ownership of Scotrail, which employs 9,000 staff and has a turnover of £200 million per year, could take the form of a management-employee buyout, now that fears of a break up have been allayed. However, within the bill there are proposals that any former British Rail or public sector body must transfer their operations to the private sector before forwarding any proposals for a buyout.

Plans for ownership of the track have produced concern in four areas, broadly reflecting the interests of operators and passengers.

Firstly, GEC are exasperated at the implications for the manufacturing of rolling stock and has voiced fears that orders for new rolling stock could collapse in the UK as a result of the separation of track and train services. It is concerned that issuing short-term franchises will limit purchases or leases for new rolling stock from operators who are worried that competing bids will prevail when their contracts run out. Secondly, SNCF, the French railway operator, has threatened to sue the UK government if the privatisation proposals reduce rail freight transport. They claim that charging for the use of tracks would be discriminatory since road operators do not face any such charges.

Thirdly, passenger and rail unions groups are upset at the implications for cheap travel in the United Kingdom. It is understood that the proposals wish to retain discount fares for disabled travellers but will leave the decision on national railcards for students, families and pensioners up to individual operators. Rail unions have expressed fears that the withdrawal of long distance cheap fares will hit tourism, an issue of particular potency in Scotland. Fourthly, there is concern as to whether Railtrack UK will be required to plough profits back into new and improved infrastructure and whether one or more operators will be granted access to run a service on one line.

In addition the future of services from Inverness and Aberdeen are in doubt following the severing of the links between the east coast line and other Intercity operations north of the border. Optimists would hope that a buyer could be found for the whole of the rest of the Scottish network, one who would not operate with clinical eye to the balance books but with an aim of maintaining and upgrading the present service. Realists might say that offering franchises on a short term basis would render this unlikely.

On the whole the future of the Intercity service will depend on whether private sector, and implicitly, better trained management can turn British Rail's image around from the commonly held perception of a second rate service coupled with poor accountability. It has been noted that the government's proposals carry little reference to passenger satisfaction although the Prime Minister is reported as saying that the Passenger's Charter will remain in place. For Scotrail and Intercity Edinburgh-London users, we would hope that the privatisation process will not lead to any disruptions and price hikes that we have seen in the other privatisation processes of the late 1980s, although the withdrawal of cheap travel would essentially be that.

Another important issue to arise in the last few weeks has been the redundancy of 300 workers at Stranraer harbour. Since the introduction of the one and a half hour Seacat Catamaran service to Belfast harbour, in the middle of last year, the two and a quarter hour services form Stranraer and Cairnryan to Larne, some twenty five miles north up the Irish coast, have dramatically reduced their fares for car and foot passengers alike in an attempt to maintain market share. Unfortunately for the workforce in Stranraer the attractiveness of a higher quality non-freight mode of transport and the arrival point in the heart of Belfast have worked against the workforce in Scotland.

Seacat have announced plans to introduce an additional Catamaran in the near future in the hope of inciting further defections from an apparently inferior service. This certainly, from the Irish side of proceedings, is good news for the many thousands who spend their holidays on the mainland, but unfortunately bodes ill for the workforces in Scotland and Ireland who will increasingly depend on freight for their livelihoods.

HEALTH

There is little "hard" news of an economic nature to report. The Secretary of State pointed to the 1993/94 budgeted provision of £3,786 million for health as representing £744 for every person in Scotland and predicted more patients would be treated and fewer patients would have lengthy waits. The reported evidence on waiting lists is mixed: 4% more patients were treated in the year to September 1992, the number of patients waiting more than one year fell, but the number waiting more than three months increased. Meanwhile pay increases in the health service are to be held to the 1.5% public sector norm determined by the government, thus raising the question whether there is any sense in continuing with the system of pay review bodies. The health sector is learning along with everyone else that macroeconomic considerations tend to dominate where economic decision-making is concerned! One interesting development is that fundholding general practitioners will be able to provide a wider range of services from April, including for example minor surgical and diagnostic procedures normally provided in hospitals.

The debate on hospital rationalisation rumbles on, the headlines give some of the flavour: "six hospitals on Glasgow hit-list", "NHS chiefs plan to cut 5000 acute beds", "clinics axed". GPs served by Stobhill air their misgivings over the transfer of services to Glasgow Royal Infirmary, and the Glasgow southside "free sheet" newspaper, The Extra, runs a campaign to save the Victoria Infirmary. Concrete proposals will be unveiled soon when the Greater Glasgow Health Board (GGHB) reveals which of the options that have been publicly aired it proposes to pursue.

Boards and trusts and indeed the Scottish Office are also in the news on the personnel front. Chief Executive Don Cruikshank is to leave SHHD for Oftel. GGHB has a new chair Bill Fyfe and appears shortly to be seeking a new general manager to replace Laurence Peterken. The appointment of non-executive directors to hospital trusts has created some excitement. Tory local councillors were reported to be infuriated by the appointment of Labour and SNP members, and trade unionists. It is to be hoped that this sensible decision by Mr Lang means that the primary consideration in such appointments will be the best person for the job rather than the political "one of us" criterion. Other events are not so encouraging: the Yorkhill NHS trust contains no university representative on its board despite claims that the Secretary of State approved the trust application with this recommendation in place. And Alan McDermid of the Glasgow Herald has raised a legitimate concern about Frank Brown, currently general manager of the North Ayrshire hospitals unit, failing to obtain the chief executive's job for the unit when it becomes a trust in April. This decision appears to have come from the Ayrshire and Arran Health Board and not, as it presumably should have done, from the newly-appointed trust board.

Finally, mention must be made of the Annual Report of the Director of Public Health for 1991/92 for the GGHB. This report is a superb farewell present from George Forwell, the retiring Director of Public Health who with co-author John Womersley has produced a wide-ranging analysis starting with a discourse on health and its determinants and concluding with a ringing Call for Action from every organisation which could influence "the poor health record of Greater Glasgow, and of the City of Glasgow in particular": the Health Board, local government, central government and voluntary organisations. What is manifestly evident from the Report are the powerful influences of social deprivation - poverty, bad housing and so on - on health. In the face of these determinants of health the GGHB can only do so much. Whilst the Report calls for a multi-sector attack on the problems, the role of the government is crucial. As the report states:

> Without more direct support from central government, it is unlikely that Greater Glasgow will achieve most or even any of the targets which have been set nationally. This is because the targets are projections of recent trends rather than based on the likely effects of specific interventions, because 50% of the population of Greater Glasgow lives in extremely disadvantaged conditions, because the health of adult men in greater Glasgow has deteriorated markedly relative to Scotland over recent years, and because of what appears to be an increased innate susceptibility of many Glaswegians to disease.

Is the government listening?

THE LABOUR MARKET

Recent experience of changes in official estimates of employment data emphasise the need for caution amongst those who seek to interpret recent labour market trends. The most recent revisions of the employment data are presented in Table 1.

The most recent employment data are for September 1992, and these are reported in Tables 1 and 2. Overall, total employees in employment fell by around 28,000 (1.4%) in the year to September 1992. Male employees in employment fell by 18,000 (1.8%), and total female employment fell by 6,000 (0.6%). Part-time female employment rose by 2,000 (0.5%), and full-time female employment actually rose by 8,000 (1.5%). The number of employees in employment in production and construction fell by 48,000 over the year to June 1992, a fall of 8.5%, but numbers employed in services increased by some 16,000.

Over the year to September 1992 the biggest employment gains were registered by Banking etc. (17,000) and Public admin. etc. (3,000). Construction again registered the biggest employment losses (13,000), but employment also fell in each manufacturing industry (by a total of 25,000).

Vacancies: Stocks and Flows

Over the year to January 1993 unfilled vacancies at job centres in Scotland fluctuated between 16.8 (14.4) and 19.7 (20.9) thousands on a seasonally adjusted (unadjusted) basis (Table 3). Vacancies fell by 0.3 thousands from 17.8 to 17.5 thousands over the year to January 1993 on a seasonally adjusted basis. The net increase in the stock of unfilled vacancies conceals much larger gross inflows and outflows (Table 4). These were of a similar order of magnitude to the outstanding stock of vacancies in each month. For example, in January 1993 inflows of 22.3 thousand were only slightly less than outflows. The short average duration of vacancies is a sign that employers on average do not find it difficult to fill posts because of a continuing slackness in the labour market (although employers may still find it difficult to recruit specific skills in particular locations).

Unemployment: stocks and flows

Recent data on the seasonally adjusted unemployment stock are presented in Table 5. The most recent data, of course, reflect the current rules governing eligibility to claim benefit which have been in place since September 1988. These reflect the extension of a guaranteed offer of a YTS place to all those under 18 who have not found a job, under the Employment Training Scheme. Under 18s are consequently not entitled to claim benefit and so are excluded from the unemployment count.

Unemployment, on a seasonally adjusted basis, rose in each of the ten months up to and including August 1991, fell in September and remained constant in October of that year. In contrast unemployment continued to rise in the UK as a whole. However, unemployment then increased in 14 of the 15 months up to and including January of this year, the exception being March 1992 in which unemployment fell by 0.2 thousand.

Over the year to January 1993 total unemployment rose by about 19.1 thousand, from a low of 230.9 thousand or 0.7 full percentage points. This represents a major increase in the level of unemployment of 8.3 per cent. In fact the aggregate figures reflect an increase in female unemployment of 2.2 thousand, and an increase of 16.9 thousand in male unemployment.

Table 6 presents recent flows into and out of the unemployment stock. In January 1993 inflows were, at 36.4 thousand, about 2.2 thousand more than in the same month of 1992. Outflows were, at 26.7 thousand, 6.1 thousand more than in January 1992. If gross outflows were maintained at their January 1993 level unemployment stocks could turnover in just over 9 months.

BUSINESS SURVEY EVIDENCE

Results from the Scottish Chambers' Business Survey for the fourth quarter of 1992 reveal a continuing decline in the demand for labour, but evidence of underlying skill shortages - especially suitably qualified and experienced skilled trades.

Fewer respondents in all sectors, as Table 7 indicates, sought to recruit staff in the fourth quarter of 1992. In all sectors fewer firms sought to recruit staff during the fourth quarter of 1992 as compared to the same periods in 1990 and 1991, reinforcing the impression of a significant decline in the demand for labour over the past two years.

Notwithstanding the general weak demand for labour skill shortages still remain. More than a third of Manufacturing, Wholesale and Tourism respondents reported experiencing problems in recruiting suitable employees for particular occupations. In Construction 30%, in Retail 20% and in Finance 17% of respondents reported these difficulties. The existence of such difficulties in a period of high unemployment suggests the existence of significant underlying skill shortages which may well become an issue when the economy begins to recover.

The results confirm the continuing rise in unemployment in all sectors. The net balances of responses indicated a further deterioration in employment trends in most sectors in the fourth quarter. As Table 8 indicates the downward trend in Manufacturing and Tourism doubled in the fourth quarter. The slight slowing down in the rate of decline in Retail employment was due to seasonal, rather than any other factors, and a further acceleration in the rate of decline in Retail employment is expected for the first quarter of 1993. Downward trends in total employment levels have now been reported for the past 27 months in the Manufacturing, Construction, Retail and Finance sectors, and for the past 18 months in Wholesale Distribution.

Over 1992 the downward trends in total employment have accelerated in the Wholesale, Tourism and Finance sectors. In Manufacturing there has been no reduction in the downward trend in total employment. In Construction there has only been a marginal reduction to the steep rate of decline in total employment.

Wholesale, Retail and Tourism expect an acceleration in the rate of decline in employment during the first quarter of 1993, whereas Manufacturing, Construction and Finance respondents expect a slight reduction in the rate of decline in the downward trends in employment.

Downward trends in overtime working were reported in all sectors during the fourth quarter and these trends are expected to continue through the first quarter of 1993. In Manufacturing the number of firms reporting short time working is expected to double in the first quarter and to increase slightly in Wholesale and Tourism.

Full time employment continues to suffer more than part time or temporary employment in all sectors, apart from Construction. The downward trend in full time employment in Tourism is more than twice that of part time employment, in retail the downward trend for full time is four times that of part timers, and in Finance three times. The relative drift towards these more 'flexible' forms of employment raises longer term concerns as to the declining quality of employment in Scotland.

Within manufacturing a net balance of 15% of Chemical respondents reported a decline in employment levels, no improvement is expected for the first quarter of 1993. In Mechanical Engineering the level of short time working continues to rise, and the upward trend is expected to continue through the first quarter of 1993. The strongly downward trend in Electronics, reported in the third quarter slackened in the fourth quarter, a marginal increase in employment is expected for the first quarter of 1993.

In Food, Drink and Tobacco the expected downward trend in total employment materialised in the fourth quarter. This downward trend is expected to continue through the first quarter of 1993. An acceleration in the rate of decline of total employment in Textiles was reported, although this is not expected to continue through the first quarter of 1993.

At the regional level the downward trends in total employment accelerated in Central, Fife and Edinburgh, remained unchanged in Aberdeen. The rate of decline slackened in Dundee and Glasgow. Across most regions the decline temporary and part time employment held up better than full time employment. Increased use of temporary labour was reported in both Central and Dundee.

The employment prospects in construction remain depressed in all regions. Nevertheless, a slackening in the downward trends in construction employment were reported in Aberdeen, Central Fife and Dundee.

Upward trends in wholesale employment were reported in Central, although this was largely due to increased employment of temporary staffs, elsewhere the pattern was one of downward trends.

With the exception of Edinburgh and Fife, there was a general slackening of the downward trends in Retail employment. This relative improvement was largely due to greater use being made of part time and temporary staffs - reflecting seasonal factors.

In all regions Retail respondents expect a deterioration in total employment levels during the first quarter of 1993. Sharp declines in part time and temporary workers are expected.

Sharper downward trends in Tourism and Leisure employment were reported in all regions with the exception of Central and Glasgow. Once again greater use was made of part time and temporary staffs in all regions. Fife, Edinburgh and Glasgow expect a slight slackening in the downward trends in total employment in the first quarter of 1993.

The continuing and deepening rate of decline in total employment suggests that unemployment will continue to rise through 1993. There is no evidence as to any improvement in the demand for labour for the first quarter of 1993. All the evidence suggests that unemployment will continue to rise through 1993 and well into 1994. Furthermore, there is much to suggest that by the mid 1990s the proportion of full time jobs will be lower and there will be increased numbers of part time and temporary employees.

Relatively few respondents [less than 20%] reported increasing wages and salaries in the fourth quarter. The average increase in wages/salaries continued to fall in Manufacturing, Construction, Wholesale and Tourism/leisure. Significantly for the first time the average increase fell below 5% in Manufacturing and below 4% in Construction. A small number of relatively large increases in Retail most probably explain the high average settlement in that sector.

As Table 10 indicates in 1992 the average wage and salary increase fell sharpest in Manufacturing Construction and Wholesale, declined more slowly in Tourism, and remained relatively stable in Finance and Retail.

TABLE 1 EMPLOYEES IN EMPLOYMENT IN SCOTLAND: INDUSTRY AGGREGATES ('000s)
(Figures in square brackets reflect the 1989 and 1990 LFS. The latest estimates reflect the impact of the 1991 LFS.)

SIC 1980		MALE		FEMALE		TOTAL	Prod/Const	Production	Manuf.	Services
		All	P/T	All	P/T		1-5	1-4	2-4	6-9
1979	Jun	(1,205)		(897)	(332)	(2,102)	(831)	(676)	(604)	1,224
1989	Mar	(1,015) [1,016]		(914) [924]	(387) [376]	(1,929) [1,941]	(587) [601]	(440) [476]	(401) [418]	(1,314) [1,311]
	Jun	[1,018]		[941]	[384]	[1,959]	[599]	[474]	[416]	[1,331]
	Sep	[1,034]		[934]	[389]	[1,968]	[594]	[460]	[402]	[1,344]
	Dec	[1,033]		[939]	[401]	[1,972]	[595]	[461]	[402]	[1,349]
1990	Mar	[1,027]		[930]	[395]	[1,957]	[591]	[457]	[397]	[1,337]
	Jun	[1,031]		[942]	[406]	[1,974]	[591]	[458]	[398]	[1,353]
	Sep	[1,040] 1,043		[943] 943	[406] 404	[1,983] 1,986	[597] 594	[465] 464	[405] 405	[1,356] 1,362
	Dec	[1,034] 1,043		[946] 949	[417] 416	[1,980] 1,992	[591] 589	[462] 462	[401] 403	[1,362] 1,376
1991	Mar	[1,021] 1,035		[936] 941	[412] 413	[1,956] 1,978	[573] 571	[449] 450	[388] 391	[1,356] 1,377
	Jun	[1,015] 1,031	106	[944] 953	[414] 417	[1,959] 1,984	[562] 561	[443] 444	[383] 385	[1,368] 1,394
	Sep	[1,011] 1,026	103	[947] 954	[418] 414	[1,958] 1,984	[560] 567	[443] 444	[383] 385	[1,370] 1,394
	Dec	1,026	105	952	416	1,978	543	434	376	1,416
1992	Mar	1,020	112	955	418	1,975	535	430	373	1,411
	Jun	1,023	123	956	419	1,979	528	425	368	1,424
	Sep	1,008	119	948	416	1,956	519	418	361	1,410

Source: Department of Employment Gazette

TABLE 2 EMPLOYMENT: SCOTLAND EMPLOYEES IN EMPLOYMENT (000's)*

SIC 1980		Agric./ forestry/ fishing 0	Energy & Water 1	Metal Man. & chemicals 2	Metal goods, Eng. & vehicles 3	Other Man. 4	Const. 5	Distribution Hotels & Catering: repairs 6	T'sport & Comm. 7	Banking, insurance & finance 8	Public admin, education & other services 91-92
1979		48	72	82	258	265	155	[391]	135	123	[573]
1989	Jun	[29]	[58]	[47]	[166]	[202]	[125]	[385]	[116]	[174]	[656]
	Sep	[30]	[59]	[48]	[168]	[207]	[124]	[387]	[116]	[176]	[664]
	Dec	[28]	[60]	[49]	[169]	[206]	[122]	[384]	[116]	[177]	[676]
1990	Mar	[28]	[61]	[49]	[168]	[203]	[121]	[374]	[117]	[179]	[678]
	Jun	[30]	[61]	[47]	[170]	[207]	[120]	[387]	[115]	[180]	[683]
	Sep	[30] 29	[63] 59	[47] 43	[172] 167	[212] 195	[120] 130	[392] 416	[115] 113	[182] 195	[685] 639
	Dec	[27] 27	[61] 59	[44] 41	[169] 164	[189] 197	[129] 127	[412] 417	[108] 112	[184] 196	[657] 652
1991	Mar	[28] 28	[61] 60	[43] 39	[165] 158	[181] 193	[123] 121	[404] 410	[106] 110	[189] 205	[657] 654
	Jun	[29] 28	[60] 59	[42] 38	[161] 153	[180] 194	[120] 117	[408] 415	[107] 111	[187] 205	[665] 662
	Sep	[29] 28	[60] 59	[42] 38	[161] 153	[180] 194	[116] 114	[408] 415	[108] 112	[182] 203	[673] 664
	Dec	28	58	38	155	184	109	418	111	213	664
1992	Mar	28	58	37	153	183	105	411	110	217	673
	Jun	27	57	36	147	185	103	419	109	223	672
	Sep	28	57	35	143	182	101	416	107	220	667

* Figures in parentheses reflect estimates based on 1987 census and 1989 LFS. The more recent estimates are based on the 1989 census and the preliminary results of the 1990 LFS.

Source: Department of Employment Gazette

TABLE 3 UNFILLED VACANCIES AT JOBCENTRES - SCOTLAND ('000s)					
	Seasonally adjusted			Vacancies at Careers Offices	
	Number	Change since previous month	Average change over 3 months ending	Unadjusted Total	Unadjusted
1989 Jan	20.0	-0.3	-0.1	17.0	0.5
May	20.5	0.2	0.2	21.5	0.7
Jun	21.8	0.0	0.7	23.3	1.0
Jul	21.8	0.0	0.5	23.1	0.9
Aug	22.1	0.3	0.5	22.7	0.9
Sep	22.6	0.5	0.3	24.5	1.0
Oct	23.4	0.8	0.5	25.2	0.8
Nov	24.7	1.3	0.9	25.3	0.9
Dec	23.4	-1.3	0.3	21.9	1.1
1990 Jan	22.8	-0.3	-0.1	19.8	1.1
Feb	22.3	-0.5	-0.7	19.2	1.0
Mar	22.3	0.0	-0.3	20.5	1.2
Apr	23.0	0.7	0.1	22.9	1.5
May	22.7	-0.3	0.1	23.6	1.3
Jun	22.4	-0.3	0.0	23.8	1.4
Jul	22.2	-0.2	-0.3	23.3	1.2
Aug	22.4	0.2	0.1	23.2	1.1
Sep	22.4	0.0	0.0	24.5	1.1
Oct	21.8	-0.2	-0.2	24.0	0.9
Nov	18.7	-3.1	-1.3	19.4	0.9
Dec	16.6	-2.0	-1.8	15.2	0.6
1991 Jan	19.1	2.5	-0.9	15.6	0.7
Feb	22.6	3.6	1.3	19.8	0.6
Mar	23.9	1.3	2.4	21.8	0.6
Apr	19.3	-4.6	0.1	19.4	0.7
May	17.7	-1.6	-1.6	18.5	0.8
Jun	17.2	-0.5	-2.1	18.8	0.9
Jul	16.2	-1.1	-1.1	17.1	0.8
Aug	15.6	-0.6	-0.7	16.3	0.7
Sep	15.9	0.3	-0.5	18.6	0.6
Oct	17.0	0.5	0.2	19.6	0.6
Nov	17.4	0.4	0.5	18.2	0.6
Dec	17.5	0.1	0.3	15.9	0.4
1992 Jan	17.8	0.3	0.3	14.4	0.5
Feb	18.6	0.8	0.4	15.8	0.4
Mar	18.5	-0.1	0.6	16.9	0.6
Apr	19.5	1.0	0.6	20.1	0.5
May	19.7	0.2	0.4	20.7	0.6
Jun	19.2	-0.5	0.2	20.9	0.7
Jul	18.1	-1.1	-0.5	18.4	0.7
Aug	17.6	-0.5	-0.7	17.8	0.5
Sep	16.8	-0.8	-0.8	18.9	0.5
Oct	17.2	0.4	-0.3	19.8	0.5
Nov	18.4	1.2	0.3	19.2	0.5
Dec	18.0	-0.4	0.4	16.4	0.4
1993 Jan	17.5	-0.5	0.1	14.0	0.3

Source: Department of Employment Press Notice

Note: Figures from October reflect the revised basis of seasonal adjustment from November 1992

TABLE 4: VACANCY FLOWS AT JOBCENTRES, STANDARDISED, SEASONALLY ADJUSTED - SCOTLAND						
	In-flow		Out-flow		Thousands of which: Placings	
Date	Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1989 Apr	21.3	0.3	20.9	0.1	17.6	0.0
May	21.4	-0.2	20.9	-0.5	17.7	-0.5
Jun	21.9	0.3	20.1	-0.4	17.1	-0.3
Jul	22.1	0.3	22.0	0.4	18.5	0.3
Aug	23.1	0.6	22.8	0.6	19.2	0.5
Sep	22.6	0.2	22.2	0.7	18.6	0.5
Oct	24.1	0.7	23.4	0.5	19.8	0.4
Nov	24.6	0.5	23.4	0.2	19.7	0.2
Dec	22.1	-0.2	22.6	0.1	19.1	0.2
1990 Jan	20.1	-1.2	21.2	-0.6	17.9	-0.5
Feb	22.7	-0.4	23.4	0.1	19.4	0.0
Mar	22.3	0.1	22.3	0.0	18.5	-0.1
Apr	22.4	0.8	22.2	0.3	18.4	0.2
May	22.5	0.1	22.3	-0.4	18.4	-0.3
Jun	21.6	-0.2	1.9	-0.1	18.1	-0.1
Jul	23.5	0.4	23.5	0.4	19.7	0.4
Aug	23.2	0.2	22.8	0.2	18.8	0.1
Sep	22.9	0.4	22.9	0.3	18.6	0.2
Oct	22.4	-0.4	22.9	-0.1	18.7	-0.2
Nov	21.9	-0.4	25.8	1.0	20.6	0.6
Dec	21.1	-0.3	21.8	-0.3	17.6	-0.3
1991 Jan	21.9	-0.1	20.5	-0.8	16.6	-0.7
Feb	22.5	0.2	18.7	-2.4	15.2	-1.8
Mar	21.9	0.2	20.8	-0.3	17.4	-0.1
Apr	22.3	0.1	25.8	1.8	21.6	1.7
May	22.4	0.0	26.0	2.4	21.6	2.1
Jun	20.1	-0.6	20.3	-0.2	16.7	-0.2
Jul	20.0	-0.8	20.7	-1.7	16.9	-1.6
Aug	19.5	-1.0	20.0	-2.0	16.4	-1.7
Sep	20.6	0.2	20.4	0.0	16.8	0.0
Oct	23.0	0.9	21.6	0.2	18.0	0.3
Nov	19.9	0.0	19.7	-0.2	15.7	-0.4
Dec	21.2	0.2	20.6	0.2	17.3	0.2
1992 Jan	20.3	-0.9	20.7	-0.3	17.4	-0.2
Feb	20.3	0.1	19.9	-0.1	16.3	0.2
Mar	21.7	0.2	21.9	0.4	18.3	0.3
Apr	21.4	0.4	21.2	0.2	17.7	0.1
May	21.4	0.4	21.3	0.5	17.8	0.5
Jun	22.1	0.1	22.4	0.2	18.3	0.0
Jul	19.8	-0.5	20.7	-0.2	16.7	-0.3
Aug	20.2	-0.4	20.5	-0.3	16.6	-0.4
Sep	20.9	-0.4	21.6	-0.3	17.8	-0.2
Oct	21.5	0.6	20.1	-0.2	16.9	0.1
Nov	21.1	0.3	30.2	-0.1	16.7	0.0
Dec	22.3	0.5	22.3	0.2	19.0	0.4
1993 Jan	22.3	0.3	23.1	1.0	19.1	0.7

Source: Department of Employment

Note: Figures from October reflect the revised basis of seasonal adjustment from November 1992

TABLE 5: SCOTLAND - UNEMPLOYMENT - SEASONALLY ADJUSTED (excluding school leavers ('000s) (figures in parentheses reflect estimates on September 1988 basis - see text for details)						
Date	Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemp. rate % of working population
1985	243.6	109.3	353.0			14.2
1986	248.1	111.8	359.8			14.5
1987	214.5	87.8	302.3	2.8	-4.1	12.2
1988 Dec	186.7	73.5	260.2	-6.3	-3.3	10.5
1989 Apr	175.1	68.2	243.3	-7.2	-4.5	9.7
May	172.8	66.7	239.5	-3.8	-4.5	9.7
Jun	170.0	65.0	235.0	-4.5	-4.2	9.4
Jul	168.9	63.9	232.8	-2.2	-4.0	9.4
Aug	167.7	63.3	231.0	-1.8	-3.7	9.3
Sep	163.0	61.8	224.8	-6.2	-4.3	9.1
Oct	159.2	60.4	219.6	-5.2	-4.0	8.8
Nov	155.8	59.0	214.8	-4.8	-4.1	8.6
Dec	153.0	57.5	210.5	-4.3	-4.1	8.5
1990 Jan	151.1	56.8	207.9	-3.3	-3.8	8.3
Feb	150.8	56.2	207.0	-0.9	-3.6	8.2
Mar	149.6	55.4	205.0	-2.0	-3.1	8.2
Apr	148.5	55.3	203.8	-1.2	-2.6	8.1
May	147.1	54.3	201.3	-2.4	-2.2	8.0
Jun	147.0	54.1	201.1	-0.3	-1.7	8.0
Jul	147.9	53.6	201.5	0.4	-1.1	8.0
Aug	147.6	52.8	200.4	-1.1	-1.1	8.0
Sep	147.6	51.6	199.2	-1.2	-1.0	7.9
Oct	146.9	51.0	197.9	-1.3	-1.0	7.9
Nov	147.8	50.8	198.6	0.7	-0.5	7.9
Dec	149.6	51.2	200.8	2.2	-0.1	8.0
1991 Jan	150.3	51.2	201.5	0.7	0.0	8.1
Feb	153.0	51.7	204.7	3.2	0.7	8.2
Mar	157.0	52.3	209.3	4.6	1.7	8.4
Apr	160.4	54.0	214.4	4.8	2.6	8.5
May	163.9	55.2	219.8	4.7	3.3	8.7
Jun	166.5	55.4	221.9	2.8	3.3	8.8
Jul	169.4	56.2	225.6	3.7	3.8	8.9
Aug	170.9	56.1	227.0	1.4	3.5	9.0
Sep	170.4	55.3	225.7	-1.3	2.7	9.0
Oct	171.0	54.7	225.7	0.0	1.9	9.0
Nov	172.6	54.5	227.1	1.2	1.3	9.0
Dec	173.6	54.3	227.9	1.4	0.9	9.0
1992 Jan	176.0	54.9	230.9	3.0	0.9	9.2
Feb	176.2	55.3	231.5	0.6	0.9	9.2
Mar	175.5	55.8	231.3	-0.2	0.9	9.2
Apr	177.7	56.2	233.9	2.6	1.4	9.3
May	179.1	56.1	235.2	1.3	1.4	9.3
Jun	180.1	56.4	236.5	1.3	1.4	9.4
Jul	183.1	57.2	240.3	3.8	1.6	9.5
Aug	185.9	56.9	242.8	2.5	1.9	9.6
Sep	186.8	56.7	243.4	0.7	2.0	9.7
Oct	188.0	56.5	244.5	1.0	1.8	9.7
Nov	189.4	56.6	246.0	1.5	1.8	9.8
Dec	192.4	57.1	249.5	3.5	2.2	9.9
1993 Jan	192.9	57.1	250.0	0.5	1.6	9.9

Source: Department of Employment

TABLE 6: UNEMPLOYMENT FLOWS - STANDARDISED, UNADJUSTED: SCOTLAND ('000s)		
Month ending	In-flow	Out-flow
1989 Apr	30.5	38.9
May	27.3	38.6
Jun	27.9	35.5
Jul	37.1	33.5
Aug	30.9	33.5
Sep	33.0	41.6
Oct	31.9	38.2
Nov	31.5	34.2
Dec	27.8	26.8
1990 Jan	29.7	22.9
Feb	31.9	35.7
Mar	29.5	35.5
Apr	29.7	33.3
May	25.8	35.9
Jun	29.1	31.5
Jul	38.5	30.2
Aug	29.9	30.5
Sep	32.5	37.6
Oct	33.0	35.3
Nov	34.1	31.1
Dec	31.6	25.3
1991 Jan	31.3	20.8
Feb	34.0	32.9
Mar	32.9	31.6
Apr	33.8	31.8
May	30.9	32.7
Jun	31.0	30.9
Jul	44.4	30.5
Aug	32.8	30.9
Sep	33.9	41.0
Oct	34.6	36.3
Nov	34.8	32.1
Dec	32.5	26.9
1992 Jan	34.2	20.6
Feb	33.7	35.1
Mar	31.8	34.2
Apr	33.5	33.1
May	30.4	34.6
Jun	32.9	34.4
Jul	48.9	33.3
Aug	35.4	32.9
Sep	37.1	46.0
Oct	38.7	39.8
Nov	38.2	35.6
Dec	34.0	26.3
1993 Jan	36.4	26.7

Source: *Department of Employment*

Table 7 Percentage of firms recruiting employees

	4/91	1/92	2/92	3/92	4/92
Manufacturing	42%	44%	45%	44%	39%
Construction	40%	35%	32%	31%	34%
Wholesale	42%	43%	36%	35%	28%
Retail	46%	36%	49%	39%	42%
Tourism/leisure	54%	53%	72%	54%	45%
Finance	27%	26%	22%	13%	22%

Table 8 Trends in total employment [net balances of responses]

	4/91	1/92	2/92	3/92	4/92
Manufacturing	-17%	-16%	-7%	-9%	-18%
Construction	-33%	-31%	-23%	-34%	-29%
Wholesale	- 5%	- 5%	-10%	-9%	-11%
Retail	-13%	-11%	-5%	-14%	- 7%
Tourism/leisure	-14%	-27%	+3%	-14%	-25%
Finance	-29%	-46%	-24%	-38%	-44%

Table 9 Percentage of firms reporting increased difficulties in recruiting staff

	4/91	1/92	2/92	3/92	4/92
Manufacturing	13%	10%	9%	12%	9%
Construction	12%	14%	18%	14%	11%
Wholesale	11%	5%	4%	5%	7%
Retail	10%	11%	16%	10%	5%
Tourism/leisure	18%	12%	15%	23%	17%
Finance	0%	2%	1%	0%	0%

Table 10 Wage and salary increases

	4/91	1/92	2/92	3/92	4/92
Manufacturing	6.0%	5.5%	5.3%	5.3%	4.3%
Construction	6.2%	7.6%	5.0%	5.0%	3.8%
Wholesale	6.0%	7.0%	5.7%	5.7%	5.3%
Retail	6.6%	5.3%	5.5%	5.5%	7.1%
Tourism/leisure	4.8%	4.9%	5.4%	5.4%	4.1%
Finance	5.4%	4.1%	3.8%	3.8%	5.3%

REGIONAL REVIEW

INTRODUCTION

In January 1993, Scottish unemployment rose by 8,983 to stand at 260,757 on an unadjusted basis. This constitutes 10.3% of the Scottish workforce and the rise represents a monthly increase of 3.6%. Male unemployment rose by 6,173 or by 3.2% whilst female jobless grew by 2,810 or by 5.0%. The male unemployment rate is presently 13.9% and the female rate 5.5%.

The Scottish jobless count tends to rise in January due to seasonal factors. When adjusted for seasonality, Scottish unemployment is projected to have increased by 500 or by 0.2% which is totally accounted for by the rise of the male count. Seasonally adjusted jobless rose in every month in 1992 except March and stood at 2,500,000 in January 1993. The January rise in seasonally adjusted Scottish jobless compares favourably with GB. In January, British jobless increased by 22,100 or by 0.8% to stand at 2,888,100 or 10.5% of the workforce. At present, the Scottish male, female and total jobless rates all lie below their British equivalents.

In the quarter to January 1993, seasonally adjusted unemployment in Scotland rose by 5,500 or by 2.25%. On an unadjusted basis, Scottish jobless increased by 20,837 or by 8.7%. In GB, the adjusted total advanced by 127,800 or by 4.6% whilst the raw count rose by 246,080 or by 9.1%. Thus, Scotland continues to experience rises in unemployment below the national average. In the coming quarter, we would expect Scottish and British unemployment to fall due to seasonal influences. However, it is likely that the underlying position will continue to deteriorate for the foreseeable future.

In the year to January 1993, Scottish seasonally adjusted unemployment rose by 19,100 or by 8.25%. The unadjusted count increased by 19,406 or by 8.0%. In GB, the seasonally adjusted total rose by 384,800 or by 15.4% and by 384,984 or by 15.0% on an unadjusted basis. Thus, the unemployment implications of the current recession remain less in Scotland than elsewhere. In consequence, the adjusted Scottish rate fell below the GB rate in September 1992. **Figure 1** presents the Scottish and British unemployment rate for the period 1975-93. Until recently, the Scottish jobless rate has been consistently above the GB average. Our investigations suggest that the Scottish unemployment rate has been above its British equivalent since records started in the 1920s. It should not be forgotten that across the recession unemployment has risen in Scotland, albeit at a lower rate than elsewhere. Indeed, rates in other regions are currently at or about the core Scottish unemployment rate. We expect that, in the medium term, the cyclical upswing will reduce unemployment most sharply in those areas which have suffered worst across the present recession.

Unemployment in the British regions

In this section, we consider the disparate fortunes of British Regional labour markets across the present recession with reference to the trend in seasonally adjusted unemployment and vacancies. In the next section, we discuss the regional changes in the civilian workforce in employment and its constituents.

Our discussion proceeds on the basis of 3 artificially constructed GB regions. The **South of England (STH)** comprises London, the South East, South West and East Anglia. **Midlands and Wales (M&W)** consists of East and West Midlands plus Wales whilst the **North of England (NTH)** encompasses Yorkshire and Humberside, the North West and Northern Region. These definitions are utilised in Tables 2-4 and 6 and in Figures 2 and 3.

Figure 2 sets out the trend in seasonally adjusted unemployment for Scotland, Britain and the 3 constructed regions. Unemployment is indexed with a base at January 1989. Figure 2 illustrates that the recession has bitten earlier and most severely the further south one looks.

The numbers of **British** jobless bottomed out in April 1990 at 1,498,100 at which point the workforce base rate was 5.4%. In the period to January 1993, GB unemployment increased by 1,390,000 to stand at 2,888,100 which represents a workforce rate of 10.5%. The regional changes across Britain are as follows:

Total unemployment change - April 1990-January 1993

	ch	%
South of England	802,000	172.6
Midlands & Wales	291,600	89.9
North of England	249,700	49.4
Scotland	46,000	22.8
GB	1,390,000	92.8

The South of England accounts for circa 58% of the rise in British unemployment across the recession. Scotland's jobless total did not begin to rise until the autumn of 1990 and has risen less sharply than elsewhere throughout the period. Thus far, Scotland has contributed circa 3.3% of the rise in the British jobless total.

The regional pattern is maintained for both sexes. The number of British male jobless increased 1,122,300 to stand at 2,221,800 in January 1993. This represents a workforce rate of 14.1% which is above the 13.3% posted in Scotland. The regional distribution of male unemployment change is as set out below.

The number of British female unemployed increased from 401,600 in April 1990 to 669,300 in January 1993. The regional variation in the rise of female jobless across the recession is as set out below.

Male unemployment has increased more sharply than female in all regions. This in part reflects the 'discouraged worker effect' in that a larger proportion of females who lose their jobs are not eligible to claim benefit and thus do no appear in the unemployed count. For both sexes, the rise in unemployment is greatest the further south one looks.

As a result of this disparate performance, the unemployment rate differential between 'north' and 'south' has narrowed considerably. Figure 3 sets out regional unemployment rates as a proportion of the British rate for the January 1989 to January 1993 period. This figure illustrates the marked convergence of regional unemployment rates across the present recession due to rates rising faster in the south compared to Scotland and the North. The unemployment relatives are as set out below.

Male unemployment change - April 1990-January 1993

	ch	%
South of England	624,100	186.5
Midlands & Wales	239,500	101.3
North of England	214,100	56.8
Scotland	44,500	30.0
GB	1,122,300	102.6

Female unemployment change - April 1990-January 1993

	ch	%
South of England	177,900	136.9
Midlands & Wales	52,100	59.3
North of England	35,600	27.6
Scotland	2,000	3.6
GB	267,700	66.7

Relative unemployment position

	Jan 1990	Jan 1991	Jan 1992	Jan 1993
Sth	67.3	82.5	94.4	98.1
M&W	103.6	104.9	104.5	101.9
Nth	138.2	132.8	113.5	106.7
Scot	152.7	132.8	103.4	95.2
GB	100.0	100.0	100.0	100.0

In January 1990, the seasonally adjusted unemployment rate in the South of England was 67.3% of the GB rate. This differential has narrowed steadily across the recession to stand at 98.1% in January 1993. In Midlands and Wales, the rate has risen broadly in line with the rising British trend culminating in a fairly static relative position. In the North of England, the relative unemployment rate has declined markedly over the period from 138.2% in January 1990 to 106.7% in January 1993.

The improvement in the relative position of Scotland is more dramatic than that of the North. In January 1990, The Scottish unemployment rate was 1.53 times the British average. By January 1993, the Scottish rate stood at 95.2% of the British equivalent. Thus, due to weakly rising unemployment, Scotland has performed relatively well across the present recession.

The level of unfilled vacancies has also held up relatively well in Scotland and the North. In January 1993, Scottish vacancies stood at 75.4% and North of England vacancies 53.6% of their January 1990 stock. At present British vacancies are at 51.3% of the January 1990 level, Midlands & Wales vacancies 48.8% and South of England vacancies 44.7%.

Figure 4 presents the trend in the 'U/V' ratio for Scotland and Britain for the period since January 1989. The 'U/V' ratio measures the number of unemployed chasing each vacancy. This ratio is a standard indicator of the tightness of the labour market. Figure 4 indicates that, since mid 1990, the numbers of jobless pursuing each vacancy in Scotland has been below those evident in GB. The regional distribution of 'U/V' ratios across the present recession is as set out below.

In the South of England, the 'U/V' ratio has increased sharply across the present recession. In January 1990, the 'U/V' ratio in the South of England was 70.4% of the GB level. By January 1993, the position in the South had deteriorated to 116.9% of the British level. The present numbers of jobless chasing each vacancy in the South of England is at the highest level recorded since the series started in 1980.

The experience of Midlands and Wales is only moderately better with the 'U/V' ratio increasing from 7.9 to 30.3 across the recession. The 'U/V' ratio in Midlands and Wales rose from 101.4% of the GB level in January 1990 to 104.7% in January 1993. In Scotland and the North of England, 'U/V' ratios have been rising less sharply than further south. The ratio in the North of England stood at 145.1% of the British level in January 1990 and 106.5% in January 1993.

'U/V' ratios: 1990-1993

	Jan 1990	Jan 1991	Jan 1992	Jan 1993
Sth	5.5	13.2	22.9	33.9
M&W	7.9	12.6	23.8	30.3
Nth	11.3	14.7	22.8	30.8
Scot	9.0	10.6	13.0	14.3
GB	7.8	13.1	21.8	29.0

In Scotland, the 'U/V' ratio rose from 9.0 vacancies per jobless in January 1990 to 14.3 in January 1993. This constitutes a fall from 1.15 times the GB average to 49.3% across this period. This emphasises the relatively strong position of Scotland relative to Great Britain and illustrates the **comparative** buoyancy of Scottish labour markets. At present, there are at least half the numbers of unemployed chasing each vacancy in Scotland than in any of the GB regions.

SCOTTISH EMPLOYMENT CHANGE ACROSS THE RECESSION

In this section, we examine changes in the demand for labour in Scotland and in the 3 broad GB regions. We consider changes in the Civilian Workforce in Employment (CWE) for the period June 1990 to June 1992. The CWE comprises 3 elements

(a) Employees in Employment (EE)
(b) Self Employed(SE)
(c) Work Related Government Programmes (WRGP)

We conducted a similar analysis in the previous commentary on the basis of June 1990 to June 1992. In the interim, a further quarter has been made available and the series revised back to January 1989. This does not alter our previous conclusion that Scotland performed poorly in job creation in comparison to the Midlands and South across the long 1980s cycle. In the following analysis, we refer to the period June 1990 to September 1992 as the present recession.

Across the present recession, the British CWE has declined by 1,956,000 or by 7.5% and currently stands at 24,047,000. In Scotland, the fall has been less dramatic. In the period June 1990-September 1992, the CWE in Scotland decreased by 37,000 to stand at 2,232,000. The regional changes in the CWE are as set out below.

Across the recession, the Scottish workforce in employment has held up better than in other parts of GB. In the year to September 1992, the fall in the Scottish CWE is likewise below that evident in other GB regions. Unlike other regions, the fall the Scottish CWE in the year to September 1992 is greater than the corresponding fall in the year to September 1991. The change in the components of the CWE are as follows for Scotland and GB.

Civilian workforce in employment

	June 90-Sept 92 Ch	%	Sept 91-Sept 92 Ch	%
Sth	-1,114,000	-9.3	-449,000	-4.0
M&W	- 434,000	-8.0	-189,000	-3.6
Nth	- 371,000	-5.9	-175,000	-2.9
Scot	- 37,000	-1.6	- 42,000	-1.9
GB	-1,956,000	-7.5	-855,000	-3.4

Civilian employment change: June 1990-Sept 1992

	GB ch	%	Scotland ch	%
EE	-1,531,000	- 6.8	-23,000	- 1.2
SE	- 321,000	-10.0	- 1,000	- 0.4
WRGP	- 104,000	-25.4	-14,000	-25.0
CWE	-1,956,000	- 7.5	-37,000	- 1.6
CWE-WRGP	1,852,000	-7.2	-23,000	- 1.0

The declines in the components of the CWE are less marked in Scotland than in GB. In particular, the effect on self-employment has been negligible across the recession. However, a slightly different position emerges when one considers the change in the CWE and its components in the year to September 1992.

Civilian employment change: Sept 91-Sept 92

	GB ch	%	Scotland ch	%
EE	-718,000	-3.3	-24,000	-1.2
SE	-127,000	-4.2	-16,000	-6.4
WRGP	- 12,000	-3.8	- 3,000	-6.8
CWE	-855,000	-3.4	-42,000	-1.9
CWE-WRGP	-843,000	-3.4	-39,000	-1.8

In the year to September 1992, the Scottish workforce contracted by 42,000 or by 1.9%. This compares favourably with a decline of 843,000 or 3.4% evident in Britain. It is the strong trend in employment which underpins Scottish performance. In the year to September 1992, the fall in Scottish self employment and WRGPs was greater than in GB. However, in this year, Scottish employment decreased by 24,000 or by 1.2% which compares favourably with a fall of 718,000 or 3.3% in GB. The regional changes in employment are as follows:

Employees in employment: Sept 91-Sept 92

	June 90-Sept 92 Ch	%	Sept 91-Sept 92 Ch	%
Sth	-880,000	-8.6	-371,000	-3.8
M&W	-324,000	-6.9	-157,000	-3.5
Nth	-306,000	-5.6	-167,000	-3.2
Scot	- 23,000	-1.3	- 24,000	-1.2
GB	-1,529,000	-6.8	-718,000	-3.3

The situation concerning Scottish employment across the recession merits further investigation. The change in employment at the level of the broad industrial sector is as below.

In the June 1990-June 1992 period, the Scottish labour market has performed particularly well in comparison with other GB regions. The current recession has yet to run its full course and in the next 2-3 years, job creation in Scotland and elsewhere is likely to be weak. There is now little reason to expect that Scotland will continue to outperform GB in the coming period.

Employees in employment: June 1990 - Sept 1992

SIC Description	GB ch	%	Scotland ch	%
0-1 Primary	- 36,000	- 5.0	- 4,000	- 4.5
2-4 Manufacturing	- 606,000	-12.0	-39,000	- 9.8
5 Construction	- 231,000	-22.1	-30,000	-22.9
6-9 Services	- 656,000	- 4.2	+48,000	+ 3.5
1-4 Production	- 642,000	-11.2	-43,000	- 8.8
0-9 Total	-1,529,000	- 6.8	-24,000	- 1.2

The stronger trend in Scottish employment across the recession is grounded upon a smaller decline in manufacturing and production offset by an increase in service jobs. Only in the Construction sector has the fall in jobs been more severe in Scotland.

In the year to September 1992, the change in employees by broad industrial sector is as follows:

Employees in employment: Sept 1991 - Sept 1992

	GB		Scotland	
SIC Description	ch	%	ch	%
0-1 Primary	- 38,000	- 5.3	- 2,000	- 2.3
2-4 Manufacturing	- 251,000	- 5.4	-25,000	- 6.5
5 Construction	- 97,000	-10.7	-13,000	-11.4
6-9 Services	- 330,000	- 2.2	+16,000	+ 1.2
1-4 Production	- 289,000	- 5.4	-27,000	- 5.7
0-9 Total	- 716,000	- 3.3	-24,000	- 1.2

In the previous year, Scottish employment fell by 1.2% compared with a 3.3% decline evident in GB. Employment in the Scottish production and construction sectors decreased more markedly than nationally. This reflects steeper percentage decreases in SIC Division 2: Chemicals and Metals (-7.9%) and SIC Division 4: Other Manufacturing (-6.2%) than evident in GB where decline of 5.1% and 4.2% were posted. In Services, SIC Division 6: Distribution, Hotels and Catering, SIC Division 8: Banking, Insurance and Finance, and SIC Division 9: (Mainly) Public Services all record employment gains in the year to September 1992 compared with falls in GB. The decrease in employment in SIC Division 7: Transport and Communication, is sharper in Scotland than elsewhere.

There is now evidence that the strong trend in service sector job creation in Scotland is faltering. Most commentators view that services will be subject to rapid growth across the first part of the 1990s and recent announcements continue to support that conclusion. Thus, we do not expect service sector employment to provide an engine of employment growth in the 1990s.

In the June 1990-June 1992 period, the Scottish labour market has performed particularly well in comparison with other GB regions. The current recession has yet to run its full course and in the next 2-3 years, job creation will not continue to be relatively immune from the adverse employment trend forecast for Britain.

TIME SERIES ANALYSIS

In a previous section, we analysed Scottish, GB and regional unemployment with respect to the Department of Employment seasonally adjusted series. This series also adjusts for the numerous revisions to the unemployment count which have taken place across the 1980s. No such adjustments are undertaken for areas below the UK Standard Regions.

Table 1 presents information on Scottish unemployment for the 12 months to January 1993. During this period, Scottish unemployment increased by 19,406 or by 8.0%. In consequence, the unemployment rate rose from 11.0% to 11.9%. In Britain, unemployment rose by 384,984 or by 15.0% and the rate increased from 10.8% to 12.4%. On the basis of the unadjusted series, the Scottish unemployment rate stands clearly below the corresponding British measure.

Male unemployment in Scotland rose by 17,150 or by 9.3% in the year to January 1993. This compares favourably with the 15.5% rise evident in GB. In GB, male unemployment increased by 305,885 in the year to January and currently stands at 2,270,519. In this period, Scottish female unemployment rose by 2,256 or by 3.9% which is extremely modest in comparison 13.1% rise recorded in Britain. In the period, British female jobless increased by 79,099 to stand at 683,537 in January 1993. In January 1993, the Scottish male rate stood at 16.9% and the female rate at 5.9%. The Scottish male rate is below the 17.5% rate evident in GB whilst the female rate is lower than the 6.3% posted nationally.

In the current quarter, total Scottish unemployment increased by 20,837 or by 8.7%. In this period, British unemployment increased by 246,080 or 9.1%. Scottish male unemployment rose by 16,514 or by 8.9% whilst the female count rose by 4,323 or by 7.8%. In Britain, the number of male jobless rose by 199,918 or by 9.7% whilst the female count increased by 46,126 or by 7.2%. Thus, on an unadjusted basis, Scotland experienced a particularly bad quarter but one in which the changes in total and male unemployment were smaller than those evident in each of the 3 constructed regions.

In terms of seasonally adjusted unemployment, the quarterly increase in male jobless is estimated to be 4,900 or 2.6%. This compares favourably with a 4.9 (102,600) increase evident in Great Britain. In the current quarter, Scottish seasonally adjusted male unemployment rose more slowly than in all GB regions. The Scottish female count is projected to have risen by 600 or by 1.1%. This contrasts with a rise of 25,200 or 3.9% posted in GB and is a better outcome than evident in any of the British regions.

Thus, in the previous quarter, total seasonally adjusted unemployment in Scotland rose by 5,500 or by 2.3%. In this period British jobless grew by 127,800 or by 4.6%. The quarterly increase in Scotland was more moderate than in the British region. Following a poor quarter to July in which Scottish unemployment grew more quickly in GB, we see a return to the typical position across the recession in which rises in Scottish jobless are less than in GB and its constituent regions.

UNEMPLOYMENT IN THE SCOTTISH REGIONS

Table 2 sets out total unemployment and related statistics for Scotland, it's regions and islands, GB and its broad regions for the year to January 1993. Quarterly and monthly changes are also indicated although these require careful interpretation and are best used to inform inter-regional comparisons.

The trend in Scottish regional unemployment is set out below with reference to an index based at January 1990. In addition, the change over the year to January 1993 is set out.

Examination of this data indicates that Borders, Grampian, Lothian, Fife, Dumfries & Galloway, Highland and Western Isles have fared worse than the Scottish average across the present recession. Initially, Grampian, Highland and the northern islands appeared insulated from the general downturn through linkages to the buoyant North Sea sector and due to a strong trend in Agriculture, forestry and Fishing. In the year to January Grampian (27.4%) and Highland (28.3%) have experienced the sharpest rises in total unemployment suggesting that the beneficial impact of the oil sector on these areas is diminishing. However, the unemployment rate in these areas remains well below the Scottish and GB averages.

The differential performance of the Scottish regions across the present recession has tended to promote convergence in regional unemployment rates. For the period October 1990-October 1992, the regional unemployment rates as a percentage of the Scottish average are as set out below.

Scottish regional unemployment - (January 1990-January 1992)

Region	Jan 1990=100 Jan 91	Jan 92	Jan 93	% ch 92/93
Borders	98.1	127.3	136.3	7.1
Central	102.0	109.8	116.7	6.3
Dumfries & G/way	97.6	120.6	131.2	12.8
Fife	96.7	116.4	131.3	27.4
Grampian	90.2	104.8	133.5	28.3
Highland	95.8	108.0	138.5	9.6
Lothian	103.8	121.0	132.7	3.9
S/clyde	95.7	107.3	111.5	3.9
Tayside	99.1	107.7	117.5	9.1
Orkney Islands	92.1	99.8	98.3	-1.5
Shetland Islands	94.0	109.8	120.2	9.5
Western Isles	97.0	110.1	119.0	8.0
Scotland	114.2	110.1	124.3	8.9

Relative unemployment - January 1990-January 1993

Persons

Region	Jan 90	Jan 91	Jan 92	Jan 93
Borders	59.1	58.3	66.7	67.0
Central	100.0	107.1	101.0	100.0
Dumfries & G/way	81.8	82.1	88.5	89.3
Fife	105.7	106.0	111.5	116.5
Grampian	46.6	44.0	44.8	53.4
Highland	98.9	98.8	96.9	115.5
Lothian	77.3	82.1	84.4	85.4
S/clyde	126.1	125.0	122.9	118.4
Tayside	90.9	92.9	88.5	90.3
Orkney Islands	58.0	54.8	52.1	47.6
Shetland Islands	39.8	35.7	35.4	37.9
Western Isles	145.5	138.1	141.7	144.7
Scotland	100.0	100.0	100.0	100.0

This data indicates, for example, that the total unemployment rate in Fife rose from 105.7% of the Scottish rate in January 1990 to 116.5% in January 1993. All regions except Fife, Highland, Tayside, Orkney and Shetlands have unemployment rates closer to the Scottish average at present than compared with the beginning of the recession.

In general, there is a tendency for areas that were experiencing below average unemployment rates before the recession to suffer faster unemployment growth prompting a convergence of Scottish regional unemployment rates around the rising Scottish average. In the recession so far, British regional unemployment rates have tended to converge upon the rising national position. In Scotland, unemployment has increased relatively slowly and LA regional unemployment rates have shown a clear but less marked tendency to converge upon the Scottish rate.

Fife is unique in possessing relatively high jobless rates and a deteriorating position relative to Scotland across the present recession. The peace 'dividend' has and continues to cast a long shadow across the Fife labour market. Strathclyde, Central and Western Isles also suffered relatively high unemployment prior to the recession. However, unlike Fife, these areas have deteriorated less slowly than in Scotland.

In the case of Central, the relative unemployment rate remained static between January 1990 and 1993. Strathclyde constitutes the Scottish mainland region with the slowest growth of unemployment over the recession in the year to October 1993. Central has the second weakest jobless growth on this criterion. In consequence, Strathclyde, like the Western Isles have seen slight improvements in their unemployment position relative to Scotland.

The remaining Scottish regions all presented unemployment rates below the Scottish average in January 1993. All, excepting Orkney and Shetlands, have experienced jobless growth faster than the Scottish average. In the initial stages of the recession, the regions in the South of Scotland fared badly. Unemployment in Borders increased by 27.3% between January 1990 and October 1993 and represented the worst regional experience.

In the year to January 1993, unemployment increased in Borders by 7.1% which was below the Scottish average of 8.0%. In Dumfries and Galloway, the rate of increase in jobless has moderated to 8.8% from 20.6% between January 1990 and 1992. Dumfries & Galloway represents the Scottish LA region with the 5th highest rise in unemployment in the period to January 1993.

In Lothian, Grampian, Highland, Dumfries and Galloway and Tayside, unemployment change has been greater than the Scottish average both across the recession and in the year to January 1993. These areas possessed relatively low unemployment prior to the recession and have subsequently converged upon the rising national rate.

In Grampian and Highland, the rate of unemployment growth has been faster in the year to January 1993 than in the previous year. This unfortunate characteristic is also shared by the Island areas but is not evident in the southern part of the country where the rate of increase in jobless is moderating.

Information on the unemployment position facing males and females in the Scottish LA regions is set out in Tables 3 & 4. In the 12 months to January 1993, Scottish male unemployment increased by 17,150 or by 9.3% whilst female claimants increased by 2,256 or by 3.9%. These changes compare favourably with the sharp increases evident in GB and its regions.

The trend in Scottish regional male unemployment is set out below with reference to an index based at January 1990. In addition, we present the change over the year to January 1993.

Scottish Regional Unemployment Change - January 1990-January 1993

Males	Jan 1990 = 100			% ch
Region	Jan 91	Jan 92	Jan 93	92/93
Borders	102.9	133.9	148.7	11.1
Central	105.5	116.9	126.4	8.2
Dumfries & G/way	101.1	131.4	143.7	9.4
Fife	100.0	123.5	141.3	14.4
Grampian	92.9	110.0	145.3	30.9
Highland	97.8	113.6	150.3	32.2
Lothian	106.0	125.9	139.1	10.5
S/clyde	97.7	111.6	117.2	5.0
Tayside	101.6	113.8	126.5	11.1
Orkney Islands	88.6	103.4	100.6	- 2.7
Shetland Islands	89.2	108.6	125.3	15.4
Western Isles	92.2	110.6	124.1	12.2
Scotland	99.3	115.2	125.9	9.3

In the year to January 1993 the sharpest increases in male unemployment were experienced in Grampian (+30.9%), Highland (+32.2%) and Shetland Islands (+15.4%). This reflects the initial stages of the direct and knock-on effects of the decrease in Oil and Gas exploration and development activity. Fife (+14.4%), Western Isles (+12.2%), Borders (+11.1%), Lothian (+10.5%) and dumfries and Galloway (+9.4%) all present annual male increases above the Scottish average. In the past year, only Orkney Islands (-2.7%), Strathclyde (+5.0%) and Central (+8.2%) record male jobless growth below the Scottish average.

The relative unemployment rate for males across the October 1990-January 1993 period are as follows:-

Relative unemployment - January 1990-January 1993

Males

Region	Jan 90	Jan 91	Jan 92	Jan 93
Borders	55.8	57.3	64.6	65.5
Central	99.1	107.3	103.1	101.4
Dumfries & G/way	68.1	69.9	78.0	77.7
Fife	100.9	101.8	108.7	113.7
Grampian	41.6	39.1	40.2	48.2
Highland	91.2	90.0	90.6	109.4
Lothian	80.5	85.5	87.4	88.5
S/clyde	129.2	127.3	126.0	120.9
Tayside	88.5	90.0	87.4	89.2
Orkney Islands	50.4	44.5	44.9	40.3
Shetland Islands	33.6	30.0	31.5	33.8
Western Isles	138.9	127.3	131.5	134.5
Scotland	100.0	100.0	100.0	100.0

In January 1990 before the recession started, 3 of the 12 Scottish regions presented male unemployment rates above the Scottish average. The rate in Western Isles was 1.39 times the Scottish average, 1.29 in Strathclyde and 1.01 in Fife. Across the recession, the male rate in Western Isles and Strathclyde tended to converge on the rising national average. However, Fife presents the sole case of a region with above average male unemployment before the recession and whose rate deteriorated relative to Scotland in the January 1990-93 period. Clearly the position of Fife is most disturbing. In Central and Highland, male unemployment was below the national average in January 1990 but deteriorated relative to Scotland over the recession. All other areas possessed below average male unemployment rates in January 1990. All except Orkney, experienced convergence upon the rising Scottish average.

In the 12 months to January 1993, Scottish female unemployment rose by 2,256 or by 3.9% which compares favourably with an increase of 79,099 or 13.1% evident in Great Britain. In this period, Highland (+18.8%), Grampian (+18.2%) and Shetland Isles (+19.8%) suffer the sharpest rise in female jobless. The areas experiencing the weakest trend in female unemployment are found in Borders (-3.4%), Strathclyde (-0.9%), Central (+0.2%) and Western Isles (+0.2%)

Across the recession (January 1990-93), Lothian (+14.7%), Highland (+14.6%), Borders (+9.1%) and Grampian (+8.6%) have shown the most marked increases in female unemployment. In this period, female jobless numbers have declined in Central (-6.8%), Strathclyde (-5.6%) and Tayside (-3.2%). These constitute the only 3 mainland regions to experience a fall in female unemployment across the recession. The position in Orkney and Shetland is similar.

This analysis demonstrates that the present recession has engendered a convergence of unemployment rates across Scotland. This mirrors the process taking place at the GB level. The unemployment stock in Strathclyde is particularly weak whilst the trend in Fife remains extremely worrying. Across the recession, Scotland's rural periphery has tended to experience the sharpest jobless growth. In the past year, sharp rises have been experienced in the oil based economies of Grampian, Highland and Shetlands. Clearly, this present recession has substantially altered the geography of unemployment in both Scotland and Great Britain.

QUARTERLY ANALYSIS

Tables 2 to 4 set out details of the absolute and percentage changes in unemployment for the quarter to January 1993. In this period, Scottish unemployment increased by 20,837 or by 8.7%. This compares favourably with a a rise of 246,080 (9.1%) evident in GB. The Scottish rise comprises a male increase of 16,514 (8.9%) and a female rise of 4,323 (7.8%). The male rise is weaker than the 9.7% increase posted in Britain. However, the Scottish female increase is sharper than the national rise of 46,162 or 7.25%.

In terms of total unemployment, the local authority regions in the Central belt exhibit the lowest quarterly increases. Strathclyde (+0.6%), Lothian (+6.3%) and Tayside (+7.2%) are the only regions to experience jobless growth below the Scottish average. The sharpest quarterly increases were experienced in Scotland's rural periphery. The worst performances were recorded in Highland (+32.5%), Shetland Islands (+23.0%), Borders (+22.1%) and Dumfries and Galloway (+17.2%), due in part to seasonal influences.

In the case of males, all Scottish regions experienced an increase in jobless in the last quarter. Again, it is the periphery which performs most poorly. The sharpest quarterly male increases are in Shetland Islands (+28.6%), Highland (+27.1%), Borders (+24.1%) and Dumfries and Galloway (+15.4%). Only Strathclyde (-6.3%), Lothian (+6.8%) and Tayside (+8.7%) recorded male rises below the national average.

In the quarter to January 1993, all local authority regions present a rise in female unemployment. Again the Central Belt fares well with Tayside, (+2.8%), Central (+4.6%), Lothian (+4.7%), Strathclyde (+5.0%) and Fife (+6.8%) all performing better than the Scottish increase of 7.8%. The sharpest rises were recorded in Highland (+49.6%), dumfries and Galloway (+21.9%), Borders (+16.5%) and Western Isles (+12.3%).

Thus, in the current quarter, the rural periphery is experiencing the sharpest increase in both male and female unemployment. In the last quarter, Scotland tended to outperform GB in terms of jobless change. This is due to the steady performance in Strathclyde, Lothian and the Central Belt. The increase in the rural areas reflect seasonal factors but also the slowing of oil and related activity.

VACANCY LEVELS

Table 5 sets out registered vacancies in the Scottish regions whilst Table 6 presents the 'U/V' ratio. In the year to January 1993, unfilled Scottish vacancies decreased by 336 or by 2.3%. The stock of vacancies fell in all regions excepting Central, Dumfries and Galloway, Lothian and the Shetland Islands. The sharpest contraction is evident in Grampian which experienced a fall of 412 vacancies which constitutes a decrease of 22.1%. Sharp declines were also posted in Borders (-11.3%), Fife (-10.7%), Tayside (-8.6%) and Orkney (-16.2%).

In the quarter to January 1993, Scottish vacancies decreased by 5,741 or by 29.0%. Declines are expected in this quarter due to seasonal factors. Only Strathclyde (-24.0%), Lothian (-17.2%) and Central (-5.7%) recorded decreases below the national average. The sharpest contractors were evident in Highlands (-51.1%), Tayside (-45.3%) Grampian (-45.2%), Borders (-38.0%), Fife (-36.5%) and Orkney (-51.4%). Again seasonal factors and the contraction of oil and related activity provide a degree of explanation of this regional profile.

Table 6 sets out the "U/V" ratio for both the British and Scottish regions for the two years to January 1993. The "U/V" ratio indicates the numbers of unemployed pursuing each available vacancy. It is estimated that circa 30% of all vacancies appear in these statistics suggesting that the true ratios are likely to be smaller than those set out in Table 6.

In January 1993, 18.6 unemployed Scots were pursuing each vacancy. This ratio has risen steadily from 11.0 at January 1990 indicating a gradual tightening of the labour market across the recession. In GB, the U/V ratio has increased more than 4 times between January 1990 and January 1993. In January 1993, Scottish regions account for the 6 most favourable ratios from the 66 GB counties.

At the onset of recession in January 1990, 7 Scottish regions exhibited "U/V" ratios above the British level of 94 unemployed per vacancy. These were, Western Isles (35.5), Fife (15.0), Tayside (13.9), Strathclyde (13.2), Lothian (12.2), Dumfries and Galloway (11.4), Orkney Islands (9.6) and Highland (9.5). By January 1993, all Scottish regions present "U/V" ratios substantially below the British average. The most adverse positions are to be found in Western Isles (37.8), Fife (29.2), Tayside (27.4), Highlands (24.1) and Lothian (22.9).

In addition, the ranks of the Scottish regions have risen considerably across the recession. In January 1990, Scottish regions accounted for 3 of the 10 British counties with the worst "U/V" ratio and 5 of the worst 20 GB areas. At that time, the average Scottish rank was 25.8. In January 1993, Scotland accounted for 7 of the 10 GB counties with the most favourable ratios and presented an average rank of 55.4. Thus, although Scottish labour markets have deteriorated across the recession, the situation in Scotland is considerably less adverse than in GB and most parts therein.

CONCLUDING REMARKS

It is clear from the foregoing analysis that there are significant variations in the fortunes of Scottish regional labour markets. However, substantial diversity in performance exists within regional boundaries and this section seeks to examine these intra-regional disparities. We employ data relating to Travel to Work Areas(TTWAs) of which there are 57 on mainland Scotland plus 3 Islands. There are 322 British TTWAs.

Table 7 sets out unemployment in regional TTWAs for the period January 1992-93. In October 1992, Cumnock and Sanquhar remains the Scottish TTWA with the highest unemployment rate. This area remains the top British unemployment blackspot. In general, Scottish TTWAs have tended to slip down the GB rankings across the current recession.

In January 1993, Aberdeen represents the TTWA with the 2nd lowest unemployment rate. Shetland is the topped rank TTWA in this respect. Although Grampian constitutes the GB mainland region with the lowest jobless rate, it should be noted that Grampian is the Scottish region with the highest "high/low" ratio. Both Forres and Keith constitute TTWAs with above average unemployment rates. Indeed, in the year to January 1993 Forres has fallen down the GB rankings from 29 to 12 whilst Aberdeen's rank remained static.

Examination of the TTWAs indicates that the rural area have tended to experience the sharpest increases in unemployment across the present recession and in the year to date. The unemployment blackspots have tended to exhibit more modest increases in claimants. One exception is the Irvine TTWA which presents a case in which the unemployment rate was above the Scottish average before the recession and the unemployment increase has been above average. However, despite the changing geography of both Scottish and British unemployment across the recession, 2 clear messages remain.

First, there are localities in the Scottish Central Belt and across the North where unemployment rates and long term unemployment incidence has been marked worse than elsewhere for a generation. These tended not to benefit unduly from the strong period of labour demand in the late 1980s. This recession has tended to boost southern jobless rates nearer to these totally unacceptable levels. It is likely that the present rises in unemployment in the South are likely to be cyclical in nature. It is a different story in Scotland and the North.

Second, unemployment is set to increase in the coming period. Although increases in Scottish unemployment has been more muted than elsewhere, there will still be a tight labour market and excess supply of unwanted blue collar workers. Most forecasters do not expect services to be a strong source of employment growth. If we wish to check the growth of the social problems which attend concentrations of high and persistent unemployment, then labour market policy must recognize that there are no jobs for a growing number of people in the coming period.

In the previous Commentary, we concluded by criticising the exclusive emphasis placed upon training in current UK labour market policy. This does not imply that we perceive all training programmes to be useless. However, in certain locations, most notably the Clydeside conurbation, structural change at a time of secular decline has bred categories of unemployed who cannot compete in the formal labour market. The types of employment for which they can be readily trained are in short supply and projected by occupational forecasters to decline further across the decade.

In the case of Glasgow, a recent FAI analysis of the skills, qualifications and work experience of Glasgow unemployed indicates that, at the top of the 1980s cycle, there was an oversupply of people with craft, transport, semi-skilled and unskilled backgrounds. In addition, those with the most adverse occupational attributes were clustered in the peripheral estates and declining East End and central communities. There was a marked tendency for people to be long term unemployed irrespective of possessing some blue collar previous experience. To train people to be HGV drivers, secretaries, industrial operatives in such an environment has not brought the desired throughput from training to jobs and threatens to undermine the credibility of training programmes in disadvantaged communities.

The present arrangements replaced the Community Programme (CP) which provided project related work experience. The CP was introduced in the early 1980s to provide something to do for the rising number of long term jobless. Initially the participants were paid a rate for the job similar to those basic rates prevailing in the formal economy.

As set out previous Commentaries, we wish to see the return of such arrangements, particularly in urban areas and former industrial communities. There are many things which need to be done and which could be done and which, on the basis of present and likely expenditure plans, will not get done.

The problem with the old CP schemes is that it did not promote the personal development of participants and did not attempt to funnel people into the formal labour market. Such a reformed CP programme would be of particular benefit to young long term unemployed with no experience of work and to older jobless with no real chance of any further employment. In many cases it would be a good first step in that it would at a stroke provide dignity and income to those taking part and repair their confidence in the system. For the young the emphasis should be on getting them ready for either training or a job in the real labour market.

In the December 1992 Commentary, we reiterated our call for the Budget to reintroduce work based schemes and have elsewhere called for incentives to be given to employers to hire long term jobless. In the Budget statement, Chancellor Lamont set out a number of new measures to assist those unemployed for more than 6 months. The total cost of the package in the coming fiscal year is £230m and aims to assist 100,000 long term jobless. First, it is intended to provide an additional 10,000 places on the existing business start up scheme. It should be noted that Scotland has an extremely poor record in self-employment creation and new small firm creation and that this approach may be of more benefit elsewhere. Second, the Chancellor has made provision for 30,000 long term unemployed to take up new vocational courses.

Third, a new "Community Action" programme is to be introduced within which 60,000 long term jobless will be allowed to undertake part-time work organised by the voluntary sector. Those involved will be paid an allowance based upon previous benefit rates and a small additional premium. Although the measure is both modest in scope and scale relative to what we think necessary and desirable, we welcome the explicit recognition that a policy based exclusively on training is invalid. It is important that this policy concession is built upon and that the scheme develops in accord with the circumstances in local markets.

Fourth, the Chancellor announced pilot schemes whereby firms will receive subsidy for hiring jobless of over 2 years duration. The subsidy will be funded from the welfare benefits which would have been paid to the client and will taper off over the one year subsidy period. Safeguards to prevent the displacement of existing employees will be implemented. Although the TEGS and SEGS schemes are similar and more generous labour subsidy measures, they are restricted to unemployed living in certain disadvantaged areas. They are funded by the EC, SEC and Strathclyde Region. To our knowledge, this is the first time that this government has involved **itself** directly in labour subsidies. The schemes proposed will cost £2.6m and will be piloted with 1,000 workers in 4 areas. The format will be varied in each of the 4 areas to establish best practice. Glasgow would clearly be an appropriate area for such a venture and it will be interesting to see if subsidies can convey competitive advantage to long term unemployed and whether firms will employ the participants at the end of the subsidy period.

The final measure is a £25m fund available to TECs who submit imaginative public-private programmes to assist the long term unemployed. Business involvement will be a key criterion in separating out competing bids. We assume that the Scottish LEC will have access to this fund although this was not specified.

These measures are small scale relative to the long-term unemployment total. However, they are departures from current thinking. Given medium term projections of unemployment in both Scotland and the UK, it is likely that such schemes will require to be expanded and developed and may be in place for much of the rest of the decade. Although the sums and totals are modest, those concerned with labour market policy should applaud the new thinking and press for increases in coverage and the development of policy in the coming period. We will return to these matters in due course.

TABLE 1: UNEMPLOYMENT TOTALS - UNADJUSTED TIME SERIES, SCOTLAND

Month	Unemployment rate*	Total	Monthly % change	Male	Monthly % Change	Female	Monthly % Change
1992 Jan	11.0	241351	5.50	184108	5.11	57243	6.77
Feb	10.9	239882	-0.63	182280	-0.99	57542	0.52
Mar	10.8	237575	-0.94	180481	-0.99	57095	-0.78
Apr	10.8	237897	0.14	180961	0.27	56936	-0.28
May	10.6	233128	-2.00	178501	-1.36	54627	-4.06
Jun	10.6	231782	-0.58	177073	-0.80	54709	0.15
Jul	11.2	246176	6.21	183820	3.81	62356	13.98
Aug	11.3	249145	1.21	186611	1.52	62534	0.29
Sep	11.0	240933	-3.30	184223	-1.28	56710	-9.31
Oct	10.9	239920	-0.42	184744	0.28	55176	-2.70
Nov	11.1	242870	1.23	187478	1.48	55392	0.39
Dec	11.5	251774	3.67	195085	4.06	56689	2.34
1993 Jan	11.9	260757	3.57	201258	3.16	59499	4.96
Change across previous							
Month		8983	3.57	6178	3.16	2810	4.96
Quarter		20837	8.68	16514	8.94	4323	7.83
Year		19406	8.04	17150	9.32	2256	3.94

Source: Department of Employment

TABLE 2: TOTAL UNEMPLOYMENT BY REGION: UNADJUSTED

	% rate Jan 1993		Total Jan 1993	Total Jan 1992	Annual Change		Total Oct 1992	Quarterly Change		Total Dec 1992	Monthly Change	
	Narrow	Wide			Total	%		Total	%		Total	%
Borders	8.5	6.9	3316	3097	219	7.1	2715	601	22.1	3125	191	6.1
Central	11.7	10.3	12788	12034	754	6.3	11614	1174	10.1	12235	553	4.5
Dumfries & Galloway	11.7	9.2	6473	5948	525	8.8	5523	950	17.2	5999	474	7.9
Fife	13.8	12.0	17619	15619	2000	12.8	15782	1837	11.6	16925	694	4.1
Grampian	6.3	5.5	15085	11843	3242	27.4	13290	1796	13.5	14433	652	4.5
Highland	14.5	11.9	12316	9601	2715	28.3	9294	3022	32.5	11460	856	7.5
Lothian	9.9	8.8	35867	32719	3148	9.6	33734	2133	6.3	34770	1097	3.2
Strathclyde	13.8	12.2	136346	131269	5077	3.9	128596	7750	6.-	132607	3739	2.9
Tayside	10.8	9.3	18001	16504	1497	9.1	16794	1207	7.2	17353	648	3.7
Orkney Islands	7.0	4.9	510	518	-8	-1.5	452	58	12.8	479	31	6.5
Shetland Islands	4.9	3.9	470	403	67	16.6	382	88	23.0	426	44	10.3
Western Isles	20.1	14.9	1966	1796	170	9.5	1745	221	12.7	1962	4	0.2
Scotland	11.9	10.3	260757	241351	19406	8.0	239920	20837	8.7	251774	8983	3.6
South of England	12.1	10.4	1287257	1058660	228597	21.6	1176819	110438	9.4	1258954	28303	2.2
Midlands & Wales	12.6	10.9	629214	556019	73195	13.2	576160	53054	9.2	611509	17705	2.9
North of England	13.0	11.4	776828	713042	63786	8.9	715077	61751	8.6	755682	21147	2.8
GB	12.4	10.7	2854056	2569072	384984	15.0	2707976	246080	9.1	2877919	76137	2.6
UK	12.5	10.8	3062065	2673864	388201	14.5	2814412	247653	8.8	2983339	78726	2.6

Source: Department of Employment

TABLE 3: MALE UNEMPLOYMENT BY REGION: UNADJUSTED

	% rate Jan 1993		Total Jan 1993	Total Jan 1992	Annual Change		Total Oct 1992	Quarterly Change		Total Dec 1992	Monthly Change	
	Narrow	Wide			Total	%		Total	%		Total	%
Borders	12.4	9.1	2489	2241	248	11.1	2005	484	24.1	2348	141	6.0
Central	16.8	14.1	8913	9066	747	8.2	8771	1042	11.9	9413	400	4.2
Dumfries & Galloway	14.9	10.8	4583	4191	392	9.4	3973	610	15.4	4240	343	8.1
Fife	19.0	15.8	13374	11692	1682	14.4	11806	1568	13.3	12879	495	3.8
Grampian	8.2	6.7	11163	8525	2638	30.9	9773	1390	14.2	10805	358	3.3
Highland	19.9	15.2	8952	6770	2182	32.2	7046	1906	27.1	8321	631	7.6
Lothian	14.5	12.3	27720	25096	2624	10.5	25950	1770	6.8	26946	774	2.9
Strathclyde	20.0	16.8	107404	102325	5078	5.0	101040	6364	6.3	104865	2539	2.4
Tayside	15.3	12.4	13513	12159	1354	11.1	12429	1084	8.7	13057	456	3.5
Orkney Islands	8.7	5.6	354	364	-10	-2.7	309	45	14.6	331	23	6.9
Shetland Islands	6.4	4.7	337	292	45	15.4	262	75	28.6	304	33	10.9
Western Isles	28.5	18.7	1556	1386	169	12.2	1380	176	12.8	1576	-20	-1.3
Scotland	16.9	13.9	201258	184108	17150	9.3	184744	16514	8.9	195085	6173	3.2
South of England	17.0	13.8	974834	799617	175217	21.9	887061	87773	9.9	955083	19751	2.1
Midlands & Wales	17.6	14.5	486434	426757	59677	14.0	442468	43966	9.9	474049	12385	2.6
North of England	18.6	15.5	607993	554152	53841	9.7	556328	51665	9.3	593850	14143	2.4
GB	17.5	14.4	2270519	1964634	305885	15.6	2070601	199919	9.7	2218067	52452	2.4
UK	17.7	14.5	2353826	2045371	308455	15.1	2151882	201944	9.4	2299664	54162	2.4

Source: Department of Employment

TABLE 4: FEMALE UNEMPLOYMENT BY REGION: UNADJUSTED

	% rate Jan 1993		Total Jan 1993	Total Jan 1992	Annual Change		Total Oct 1992	Quarterly Change		Total Dec 1992	Monthly Change	
	Narrow	Wide			Total	%		Total	%		Total	%
Borders	4.3	4.0	827	856	-29	-3.4	710	117	16.5	777	50	6.4
Central	5.8	5.4	2975	2968	7	0.2	2843	132	4.6	2822	153	5.4
Dumfries & Galloway	7.6	6.8	1890	1757	133	7.6	1550	340	21.9	1759	131	7.4
Fife	7.4	6.9	4245	3927	318	8.1	3976	269	6.8	4046	199	4.9
Grampian	3.8	3.6	3922	3318	604	18.2	3516	406	11.5	3628	294	9.1
Highland	8.4	7.6	3364	2831	533	18.8	2248	1116	49.6	3139	225	7.2
Lothian	4.8	4.5	8147	7623	524	6.9	7784	363	4.7	7924	323	4.1
Strathclyde	6.5	6.1	28942	28944	-2	-0.0	27556	1386	5.0	27742	1200	4.3
Tayside	5.7	5.3	4488	4345	143	3.3	4365	123	2.8	4207	192	4.5
Orkney Islands	4.8	3.9	156	154	2	1.3	143	13	9.1	148	8	5.4
Shetland Islands	3.1	2.8	133	111	22	19.8	120	13	10.8	122	11	9.0
Western Isles	9.5	8.3	410	409	1	0.2	365	45	12.3	386	24	7.2
Scotland	5.9	5.5	59499	57243	2256	3.9	55176	4323	7.8	56689	2810	5.0
South of England	6.3	5.9	312423	259043	53380	20.6	289758	22665	7.8	303871	8552	2.8
Midlands & Wales	6.3	5.8	142780	129262	13518	10.5	133692	9088	6.8	137460	5320	3.9
North of England	6.2	5.8	168835	158890	9945	6.3	158749	10086	6.4	161832	7003	4.3
GB	6.3	5.8	683537	604438	79099	13.1	637375	46162	7.2	659852	23685	3.6
UK	6.3	5.9	708239	628493	79746	12.7	662530	45709	6.9	683675	24564	3.6

Source: Department of Employment

TABLE 5: REGISTERED VACANCIES AT JOB CENTRES: BY REGION

	Jan 1993	%	Jan 1992	%	Annual Change		Oct 1992	%	Quarterly Change	
					Total	%			Total	%
Borders	282	2.0	318	2.2	-36	-11.3	455	2.3	-173	-38.0
Central	1058	7.5	833	5.8	225	27.0	1122	5.7	-64	-5.7
Dumfries & Galloway	620	4.4	480	3.3	140	29.2	812	4.1	-192	-23.6
Fife	603	4.3	675	4.7	-72	-10.7	950	4.8	-347	-36.5
Grampian	1451	10.3	1863	13.0	-412	-22.1	2646	13.4	-1195	-45.2
Highland	511	3.6	519	3.6	-8	-1.5	1045	5.3	-534	-51.1
Lothian	1570	11.2	1529	10.6	41	2.7	1895	9.6	-325	-17.2
Strathclyde	6944	49.5	7209	50.2	-265	-3.7	9133	46.2	-2189	-24.0
Tayside	656	4.7	718	5.0	-62	-8.6	1199	6.1	-543	-45.3
Orkney Islands	62	0.4	74	0.5	-12	-16.2	88	0.4	-26	-29.5
Shetland Islands	227	1.6	98	0.7	129	131.6	325	1.6	-98	-30.2
Western Isles	52	0.4	56	0.4	-4	-7.1	107	0.5	-55	-51.4
Scotland	14036	100.0	14372	100.0	-336	-2.3	19777	100.0	-5741	-29.0

Source: Department of Employment

TABLE 6: UNEMPLOYMENT-VACANCY (U/V) RATIO: BY REGION

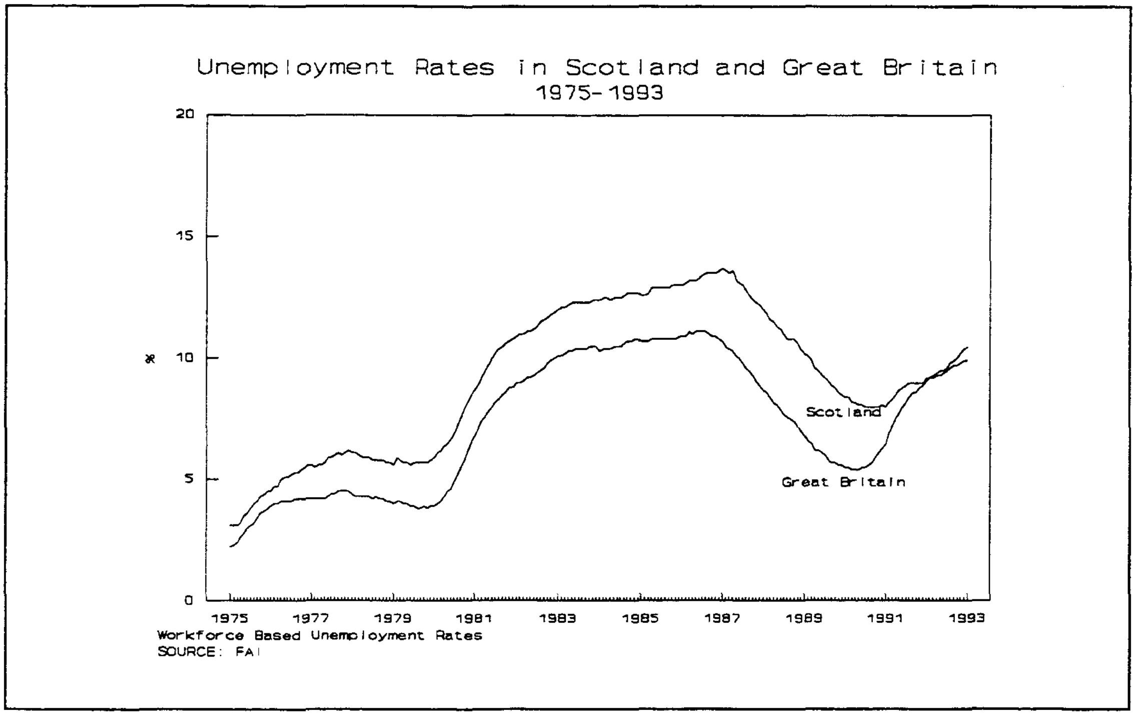
	January 1993			January 1992			January 1991		
	U/V	GB rank*	% GB	U/V	GB rank*	% GB	U/V	GB rank*	% GB
Borders	11.76	62	29.9	9.74	62	34.2	5.09	66	30.5
Central	12.09	61	30.7	14.45	58	50.7	14.25	34	85.5
Dumfries & Galloway	10.44	63	26.6	12.39	60	43.5	7.26	60	43.5
Fife	29.22	42	74.3	23.14	36	81.2	18.43	16	110.5
Grampian	10.40	64	26.4	6.36	65	22.3	6.45	64	38.7
Highland	24.10	53	61.3	18.50	52	64.9	11.54	43	69.2
Lothian	22.85	54	58.1	21.40	40	75.1	14.10	35	84.6
Strathclyde	19.64	56	50.0	18.21	54	63.9	14.98	31	89.8
Tayside	27.44	48	69.8	22.99	38	80.6	21.58	12	129.4
Orkney Islands	8.23	65	20.9	7.00	64	24.6	8.54	59	51.2
Shetland Islands	2.07	66	5.3	4.11	66	14.4	5.71	65	34.2
Western Isles	37.81	31	96.2	32.07	19	112.5	25.62	7	153.6
Scotland	18.58	55.4	47.3	16.79	51.1	58.9	13.62	41.0	81.6
South of England	50.15	22.8	127.6	31.72	29.4	111.3	18.01	31.0	108.0
Midlands & Wales	38.83	37.1	98.8	39.78	33.0	104.5	15.22	38.2	91.2
North of England	40.36	27.2	102.7	30.08	25.2	105.5	15.79	24.5	106.7
Great Britain	39.31	****	100.0	28.51	****	100.0	16.68	****	100.0

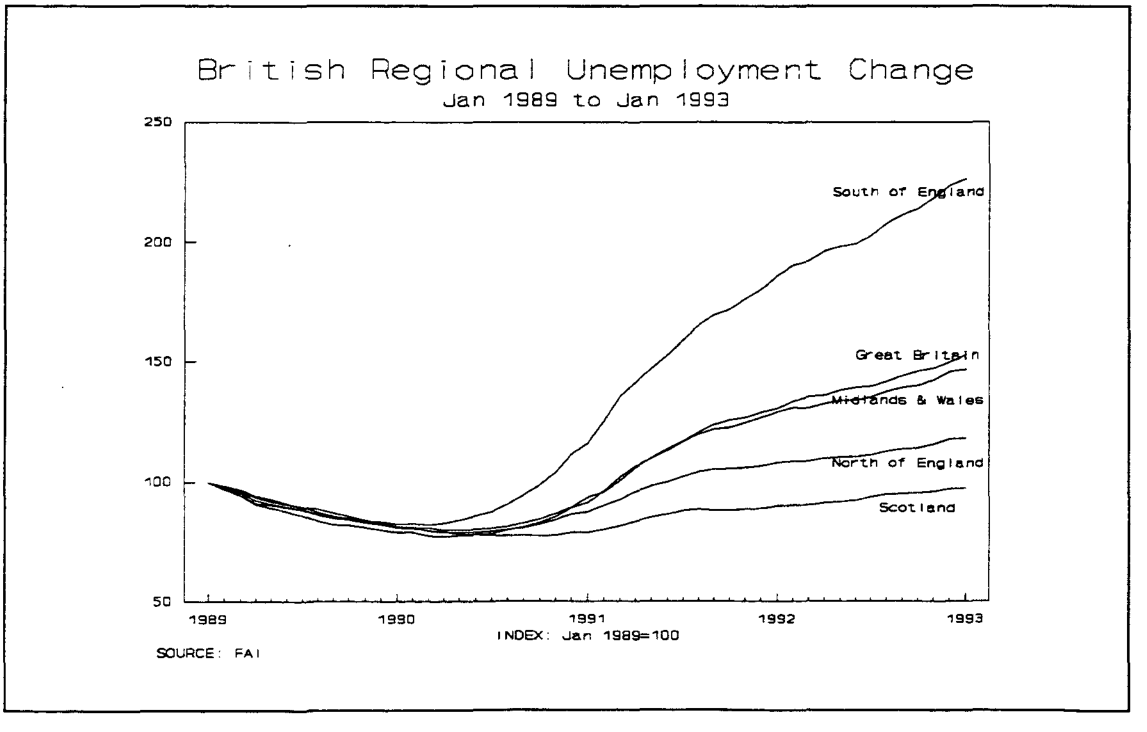
Source: Department of Employment

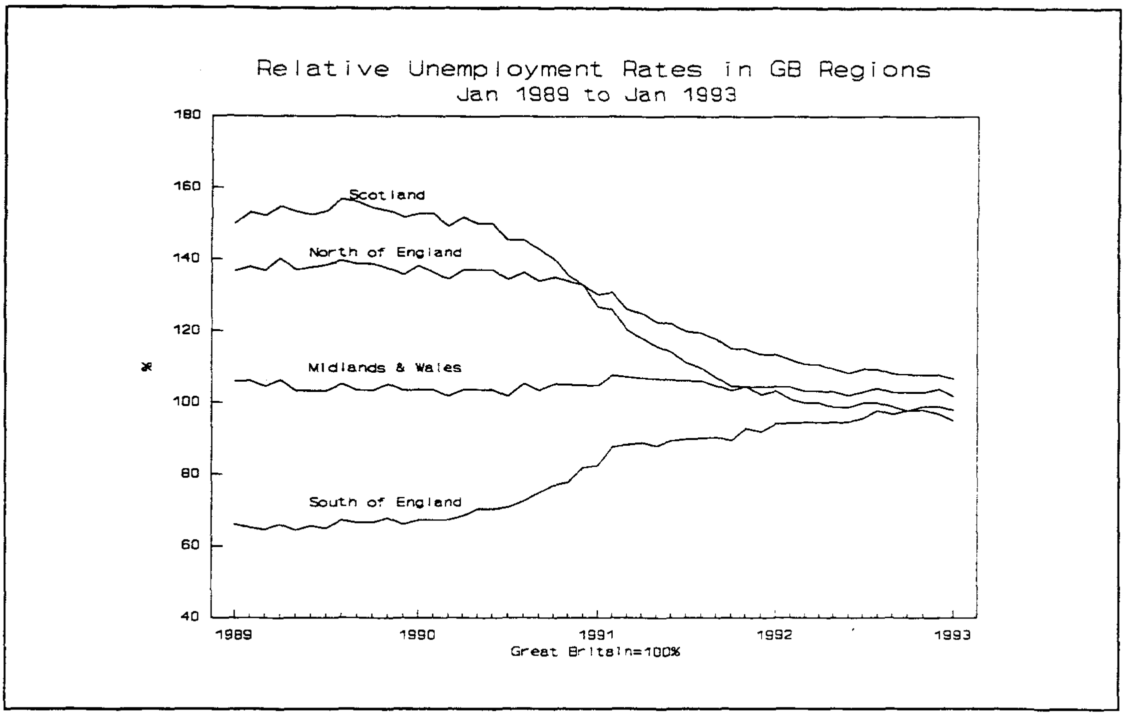
* average rank

TABLE 7: TTWAs WITH HIGHEST AND LOWEST UNEMPLOYMENT RATES AND RANKS:											
		Unemployment: Jan 1993			Unemployment: Jan 1992			High-Low		High/Low	
		% rate	GB rank	Sc. rank	% rate	GB rank	Sc. rank	Jan 1993	Jan 1992	Jan 1993	Jan 1992
Borders	H Berwichshire/Peebles	10.0	157	29	9.3	125	26	5.1	4.6	2.0	2.0
	L Galashiels	4.9	316	57	4.7	305	58				
Central	H Alloa	12.6	69	17	12.2	37	10	4.6	4.8	1.6	1.6
	L Stirling	8	244	47	7.4	215	44				
Dumfries & Galloway	H Cumnock & Sanquhar	20	1	1	19.7	1	1	12.2	12.8	2.6	2.9
	L Dumfries	7.8	258	50	6.9	238	46				
Fife	H Kirkcaldy	13.2	48	13	11.7	54	14	4.9	5.2	1.6	1.8
	L North East Fife	8.3	236	43	6.5	254	51				
Grampian	H Forres	15.9	12	2	12.5	29	7	11.5	9.1	3.6	3.7
	L Aberdeen	4.4	321	59	3.4	320	59				
Highland	H Wick	14.7	23	5	12	44	12	5.5	4.5	1.6	1.6
	L Inverness	9.2	206	37	7.5	210	41				
Lothian	H Bathgate	12.4	75	19	11.9	49	13	4.2	4.5	1.5	1.6
	L Edinburgh	8.2	239	45	7.5	209	40				
Strathclyde	H Girvan	14.8	22	4	14.5	10	2	5.5	6.1	1.6	1.7
	L Ayr	9.3	194	37	8.4	165	30				
Tayside	H Arbroath	12.4	76	20	10.8	81	22	5.6	4.5	1.8	1.7
	L Forfar/Crieff	6.8	287	52	6.3	260	53				

Source: Department of Employment


Unemployment Rates in Scotland and Great Britain
1975-1993
20
15
% 10
5
0
Scotland
Great Britain
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
Workforce Based Unemployment Rates
SOURCE: FAI


British Regional Unemployment Change
Jan 1989 to Jan 1993
250
200
150
100
50
South of England
Great Britain
Midlands & Wales
North of England
Scotland
1989
1990
1991
1992
1993
INDEX: Jan 1989=100
SOURCE: FAI


Relative Unemployment Rates in GB Regions
Jan 1989 to Jan 1993
Scotland
North of England
Midlands & Wales
South of England
%
180
160
140
120
100
80
60
40
1989
1990
1991
1992
1993
Great Britain=100%

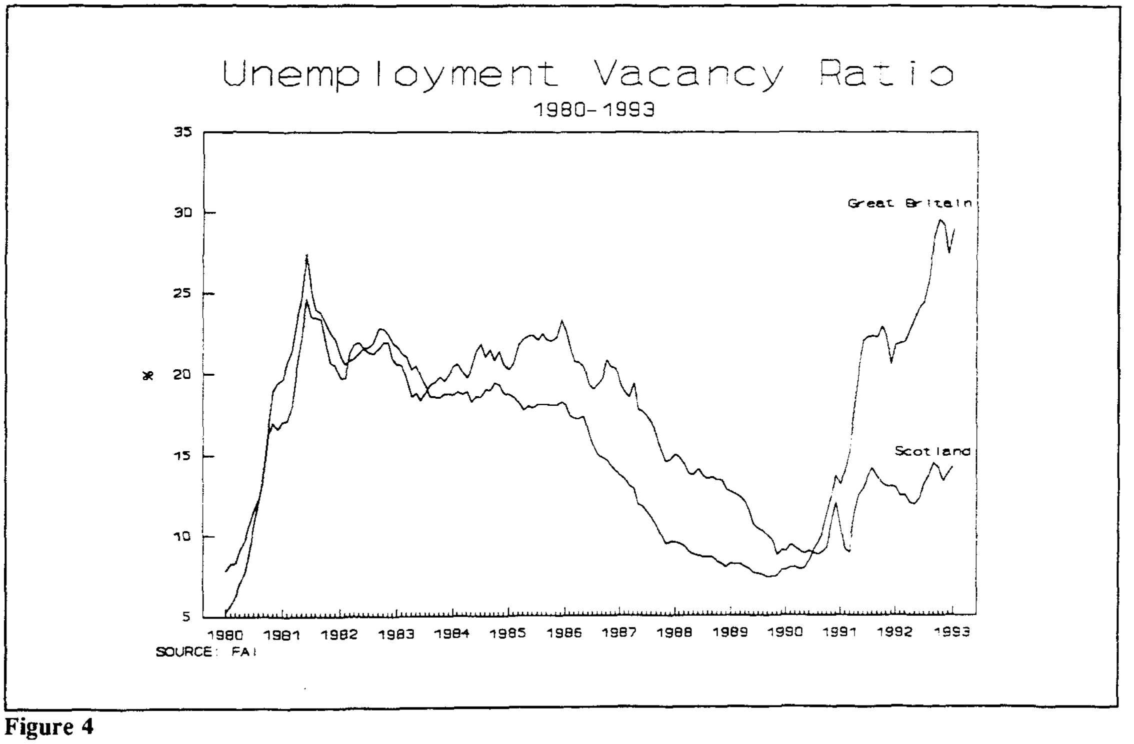

Unemployment Vacancy Ratio
1980-1993
Great Britain
Scotland
%
35
30
25
20
15
10
5
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
SOURCE: FAI

Figure 4