



Strathprints Institutional Repository

Bell, D N F and Danson, M W and Glassford, M E and Kirwan, F X and Morton, A J and Simpson, D R F and Wingfield, Alison A. (1978) The Scottish economy [January 1978]. Quarterly Economic Commentary, 3 (3). pp. 6-37. ISSN 0306-7866 ,

This version is available at <http://strathprints.strath.ac.uk/51478/>

Strathprints is designed to allow users to access the research output of the University of Strathclyde. Unless otherwise explicitly stated on the manuscript, Copyright © and Moral Rights for the papers on this site are retained by the individual authors and/or other copyright owners. Please check the manuscript for details of any other licences that may have been applied. You may not engage in further distribution of the material for any profitmaking activities or any commercial gain. You may freely distribute both the url (<http://strathprints.strath.ac.uk/>) and the content of this paper for research or private study, educational, or not-for-profit purposes without prior permission or charge.

Any correspondence concerning this service should be sent to Strathprints administrator: strathprints@strath.ac.uk

INDICATORS OF ECONOMIC ACTIVITY

For the first time, in this section, the indicators of economic activity are grouped under three broad headings to give a more complete view of recent and forthcoming changes in the major economic aggregates in Scotland. Three headings have been chosen for this issue, namely, production, investment and consumption.



SCOTTISH ECONOMY

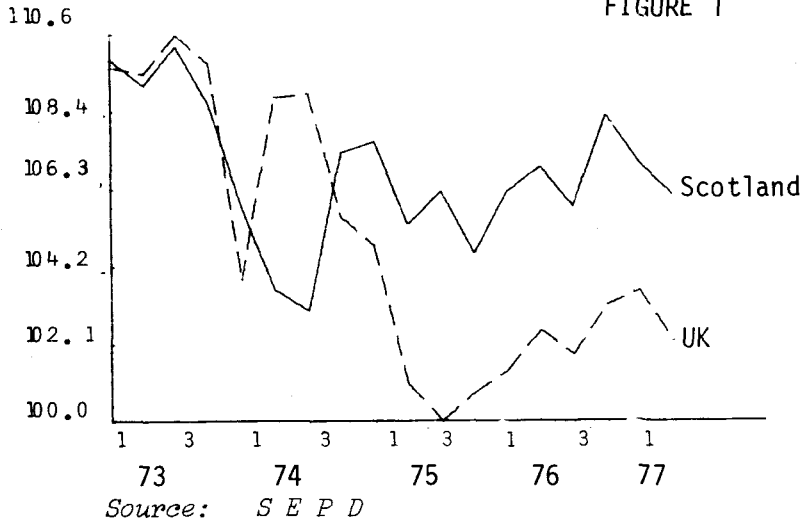
PRODUCTION

The overall index of industrial production in Scotland stood at 106.2 * (1970 = 100) in the second quarter of 1977, while that for manufacturing industries alone, stood at 107.1 (see Fig 1). Comparable figures for the United Kingdom were 102.2 and 103.2 respectively. Abstracting the effect of oil production from the overall indices gives figures of 105.7 for Scotland and 101.2 for the United Kingdom. Although the Scottish economy has grown faster than that of the United Kingdom since 1970 one can take little consolation from the fact that this relatively better performance was achieved with an annual growth rate of industrial production of less than 1%. More recent index of production figures for the United Kingdom as a whole, do not suggest any strong upturn in output in the latter half of

* All index figures are seasonally adjusted unless otherwise stated.

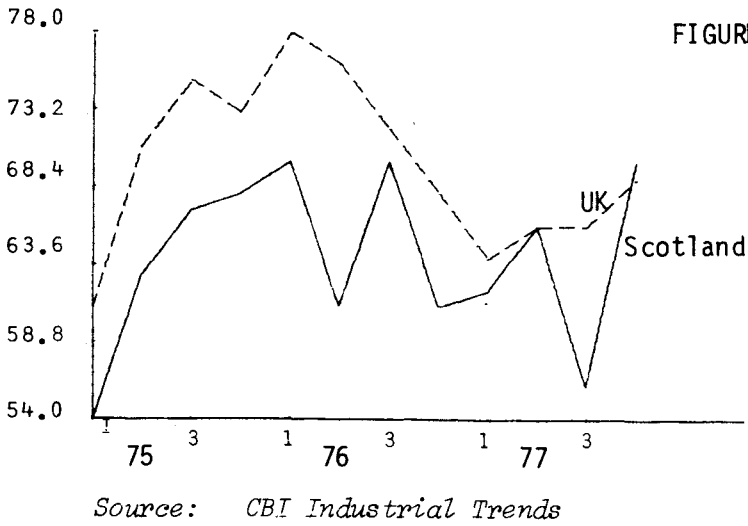
INDUSTRIAL PRODUCTION : TOTAL

FIGURE 1



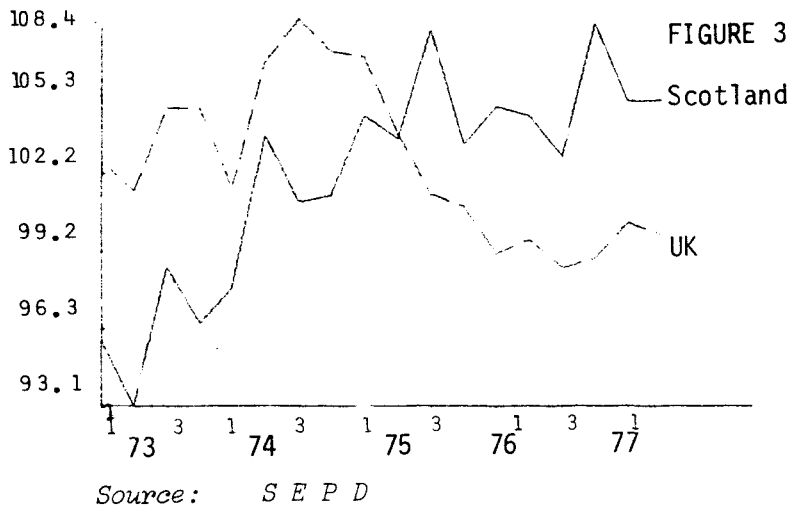
CBI SURVEY : INDEX OF EXCESS CAPACITY

FIGURE 2



INDUSTRIAL PRODUCTION : INVESTMENT GOODS

FIGURE 3



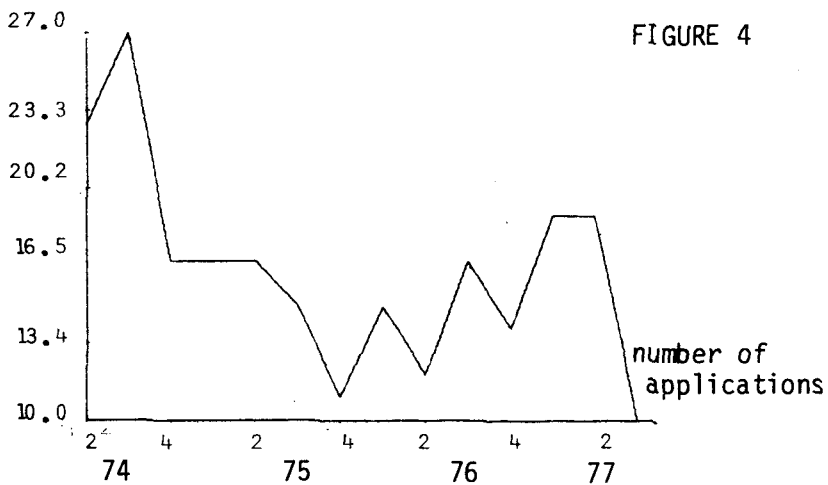
1977. This weakness in demand is also reflected in the CBI capacity utilisation index (see Fig 2). In October 1977 70% of firms reported that they were working below full capacity in Scotland. For the first time during the current recession, a lower proportion of firms in Scotland were working at full capacity than in the UK as a whole. Further indication of low levels of production is given by the response by CBI members to a question on the volume of output. A balance of 9% of firms reported a decrease in output in October. In the UK the corresponding decline was only 2%. The level of stocks also indicates a depressed level of activity with a balance of 5% of firms holding more than the desired level of stocks.

The overall picture from the output indicators is thus consistently one of a depressed level of activity during 1977 with the CBI survey, in particular, suggesting a slackening of production in Scotland relative to the rest of the UK in the latter half of the year. However, a balance of 12% of respondents expected an increase in output volume in the period October to February. In the UK the corresponding figure is 23%. In view of the sluggishness of both the domestic and world economies these forecasts may turn out to have been overly optimistic.

INVESTMENT

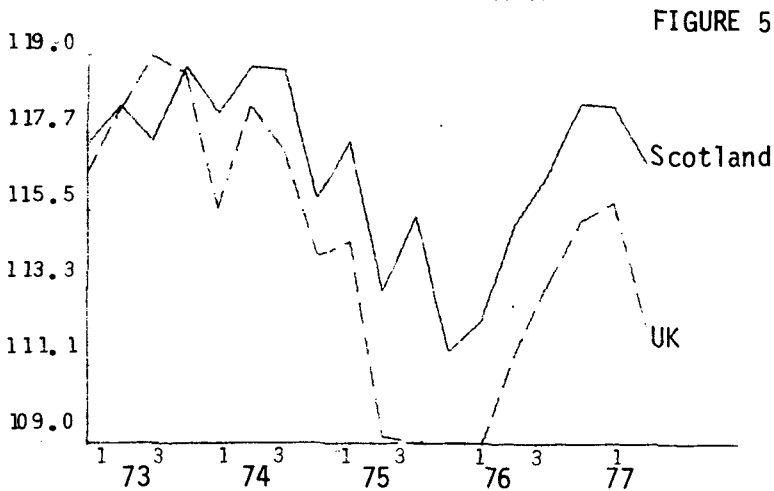
The index of industrial production for investment goods (see Fig 3), at 105.3, showed almost no change between the first and second quarters of 1977, while in the UK, a fall of 0.5 reduced the index to 99.9. In the third quarter of 1977 a rise of £22 million in investment occurred in the UK. However, a lower level of regional development grants payments, £8.7m, in the third quarter against £14.9m in the second quarter suggests that perhaps the increase in UK investment was not mirrored in Scotland. Given that the CBI survey shows that, as already stated, a large proportion of firms are operating below full capacity, there is clearly scope for considerable expansion of output without any large increase in capital expenditures. However, the October survey also shows that a balance of 14% of firms expect to spend more on plant and machinery, while 8% expect to spend less on buildings during the twelve months starting October 1977. Although perhaps sounding optimistic, these results indicate a weakening of investment intentions compared with the April and July surveys, and also compare unfavourably with the October 1977 results for the whole of the UK where a balance of 21% of firms expect to buy more plant and machinery and only 3% expect to spend less on buildings. New orders received by contractors for private, commercial and industrial construction declined in Scotland during the third quarter of 1977 by about £23m. This is consistent with the overall decline in investment and, in particular, with the small number of firms wishing to authorise capital expenditure on buildings, as indicated by the CBI survey. The monthly average number of firms applying for regional selective assistance (see Fig 4) declined to a record low of 10 during the last quarter of 1977, from an average of 19 for the previous two quarters.

SCOTTISH REGIONAL SELECTIVE ASSISTANCE



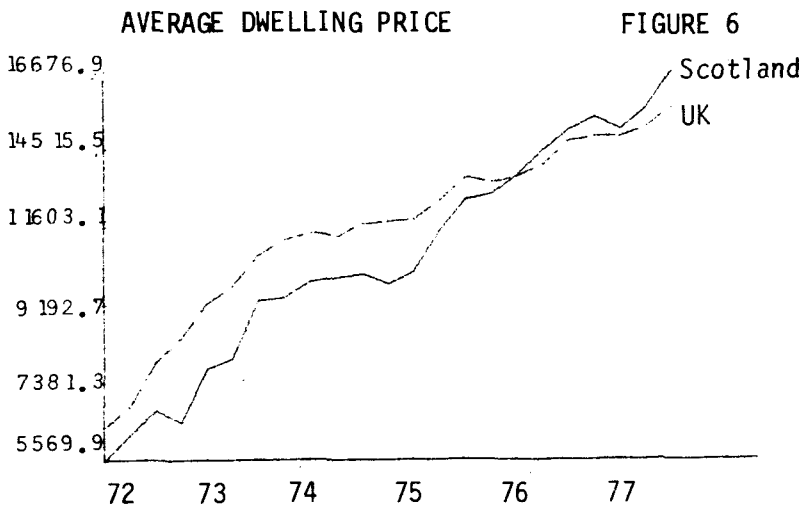
Source: Trade & Industry

INDUSTRIAL PRODUCTION : CONSUMER GOODS



Source: S E P D

AVERAGE DWELLING PRICE



Source: Department of Environment

The overall picture of investment in Scotland during 1977 is thus extremely gloomy and there are few indications of substantial improvement in the first six months of 1978. However, as it becomes clear that an expansion of the economy is taking place, as is likely to be the case after the April budget, business confidence is likely to revive and an expansion of investment may take place, though, in Scotland, growth may well be less than the 4.8% which the National Institute expect for the UK as a whole.

CONSUMPTION

In the consumer goods sectors, output fell by 1.1 index points between the first and second quarters of 1977 (see Figure 5). The fall in the UK was stronger, - 3.5 index points. In both durables and non-durables output declined more rapidly in the UK than in Scotland. Scotland's relatively strong performance in non-durables may be in large part due to the current strength of the whisky industry, Scotland's most valuable consumer product. Since a very high proportion of whisky is exported, the decline in consumers real disposable income, which took place in 1976 and 1977, have had a less severe effect on this product than on other non-durables produced primarily for the domestic market. With some tax cuts already having taken place and some forthcoming, the demand for consumer goods should rise during 1978. The National Institute expects a rise in consumption of 4.1% in the UK as a whole between 1977 and 1978 and a rise of similar magnitude can be expected in Scotland.

Over the last quarter the scanty evidence which is available suggests that price movements in Scotland have shown a very similar pattern to those in the UK. The slowdown in price inflation in the UK has been in large part due to the steadiness of the pound, the moderation of wage settlements, and the success of the vegetable harvest, which has substantially reduced their price. All these factors have affected Scotland in the same way as the UK as a whole. However, the housing market in Scotland, as has been pointed out in previous Commentaries differs considerably from elsewhere in the United Kingdom. Figures for house prices demonstrate that the Scottish market for private housing is relatively tight. In the third quarter of 1977 the average price of a house in Scotland was £14,627 compared with £13,773 in UK, (see Figure 6). Scottish house prices appear to be growing considerably faster than in the UK.

INDUSTRIAL PERFORMANCE

This section draws together all information on industrial output and performance. This is a departure from the practice of treating index of industrial production information separately from the up to date industrial information which was included in the section entitled 'Current Trends in the Economy'. There are two principal reasons for this change. Firstly, the series of quarterly results from the Scottish index of industrial production is now sufficiently long that they can be used to discern trends in output. This has been recognised by the Scottish Office, which has not introduced seasonally-adjusted versions of the indices so that movements in the series can be studied, free of seasonal fluctuation. All subsequent references in this section relate to the seasonally adjusted index of production.

Secondly, in our last Commentary, forecasts of industrial production, based on the annual indices of production, were introduced. While it is our intention to continue these forecasts at regular intervals it would obviously also be useful to be able to revise current forecasts in the light both of quarterly index information and of the ad hoc information which is available from current sources.

Since this section is now based more closely on the index of production, treatment of industries is based closely on the Standard Industrial Classification. The first industry to be considered is Agriculture.

Principal concern in the Scottish agriculture industry currently, is the value of the green pound, the EEC unit of account for agricultural produce.

AGRICULTURE Its international value is still well above that of the pound sterling and consequently farm incomes are being squeezed. Some devaluation does look likely, however, perhaps of the order of $7\frac{1}{2}\%$. Coupled with an EEC price rise of about 2% for 1978/79 this should give an overall increase of around $9\frac{1}{2}\%$ which is unlikely to be sufficient to maintain farmers' real income. Farm workers have accepted a 10% pay rise within the government guidelines which will take their basic wage to £44.00.

A bumper crop of potatoes has depressed their prices to around one tenth that of recent years. The ban on imports is likely to continue. There is still a considerable surplus of barley, with prices reaching as low as £66 per ton. Tomato growers in the Clyde Valley face a bleak future in competing with foreign growers who do not require heated greenhouses. Beef prices have firmed, though consumption is likely to decline next year and lamb prices have also increased. Pig prices have also been rising, though some levelling off can be expected in the first quarter of 1978.

FISHING

Common market fisheries ministers have again failed to reach agreement on a revised fisheries policy. Conflicts still exist within the Community over the stringency of the conservation measures needed to conserve supplies and the apportioning of fishing rights. The 200 mile limit introduced in 1977 with voluntary quotas has failed to stem the depletion of stocks and the volume of white fish catches was heavier in 1977 than in 1976. The bans on herring fishing and pout fishing in the Norwegian box were introduced in response to inadequate conservation controls. Scottish fishermen have continued (unsuccessfully) to press for a 50 mile exclusive zone, while British policy is committed to demanding a 12 mile exclusive limit with a 12-50 mile zone of 'dominant preference'.

The government has rejected the Commons' quota proposals on the basis of the method of calculation used to allocate the British share. A recent statement by the British Agriculture Minister demanding over 40% of the total Community catch suggests that a policy change may be imminent and that they are preparing to accede to the quota system.

Despite lower herring and shellfish landings Scottish fishermen's gross earnings for 1977 rose to £101 million compared with £86 million for the whole of 1977. The prosperity, due to the sharp increase in fish prices, can only be a temporary phenomenon as with the contraction of fishing stocks the long term future of the inshore fishermen must be in doubt.

COAL

Oil production boosted the index of industrial production for mining and quarrying nineteen points above what it would otherwise have been in the second quarter of 1977. This implies that the non-oil index for this sector, which is predominantly attributable to coal-mining, stood at 80 during this

period. This indicates a further drop in coal output below the already depressed levels of 1976. Output as a whole in 1977 is likely to have been substantially down on 1976 and any increase during 1978 must be contingent on the form of pay settlement which the National Coal Board agrees with the miners. There is currently dissension among Scottish miners as to whether this settlement should contain a productivity element or not.

OIL & GAS North Sea oil production for 1977 is expected to be 38-39 million tonnes, slightly lower than the 40-45 million tonnes predicted last Spring. However, it is still anticipated that the targets of 60-70 million tonnes for 1978 and 90-110 million tonnes by 1980 will be met. In November Occidental's Claymore field became the eighth field to come on stream. Start-up date for the Thistle field has been put back until the late Spring, while Brent is now back on stream after being shut down.

Although exploration activity has been high the success rate has fallen and only five commercial finds were reported in 1977 compared with twelve in 1976. Companies have been drilling in their least promising blocks before handing them back to the government. The success rate should rise again as rigs return to more favoured territory and also move into new fifth round areas.

Development of the terminal at Sullom Voe is behind schedule but BP hope that it will be ready by May. Facilities for handling associated gases will not be completed until July 1979 at the earliest. Thistle, for example, has arranged temporary offshore loading but decisions will have to be made about the temporary flaring of associated gases. As expected, the Department of Energy rejected Mesa's development plan for Beatrice field which involved offshore loading facilities. The consortium have been told to re-submit a scheme to include pipelines to the shore. They have been warned that, due to the special environmental and fishing hazards involved, a temporary production facility is also unlikely to be accepted. Mesa are now studying alternative plans for pipelines to either BP at Cruden Bay or to the Cromarty Firth.

The costs of North Sea exploration have escalated. In a recent statement the Department of Energy estimated that expenditure on oil and gas exploration and development was £2.5 billion in 1977. They expect that it will reach £8 billion over the next three years and that the total North Sea investment programme between 1972 and 1985 will be in the region of £25 billion.

Gas from the Frigg field is now being pumped in contract quantities to St Fergus. The Department of Energy is considering its future strategy options and have been waiting for a report on the Gas Gathering Pipeline (North Sea). An interim report is now being circulated which favours a start on a limited gas gathering scheme based on spurs being constructed to the existing and planned Frigg and Brent pipelines.

*FOOD, DRINK
& TOBACCO*

Output of food, drink and tobacco has, in aggregate remained fairly static since 1974. Between the first and second quarters of 1977 the Scottish index fell marginally from 118 to 117. The UK index fell slightly faster in the same period, from 112 to 110. On the basis of the first two quarters results, our forecast in the last Commentary of 4% growth in this industry during 1977 seems overly optimistic, particularly as real incomes were still falling during this period. In 1978, however, a recovery in real incomes is expected; and with food prices likely to remain stable, at least in the first half of the year, a modest expansion in food consumption is still to be expected.

However, by value, the most important single product of this sector - whisky - is more dependent on international than on domestic economic conditions. Here, the upturn in production, noted in earlier issues, has been sustained. Production for the first nine months of 1977 was 106m proof gallons, an increase of 8.1% over the same period in 1976. During the first ten months of last year 77.8m proof gallons, worth £423 million were exported. This represented a 4.7% increase in volume and a 21.5% increase in value over the first ten months of 1976. Bottled blends accounted for £360.5 million of total exports and were of particular significance in the important American market. In North America sales of Scotch are continuing to rise at the expense of home products. Bottled malt exports, although only worth £6.5 million, showed a substantial increase of 23% in volume and 45.2% in value terms over the ten month period. Bulk malts only rose by 2% in volume and 15% in value overall but Japanese imports rose by 9.98% in volume, and 17.58% in value. The growth of this market is less than in 1976 but the trade in bulk malts for local mixing still causes some concern. The Australian government, realising that their proposed increase in duty on imported Scotch, threatened 800 jobs in the bottling industry, have decided to defer any action at present. After February the outlook is uncertain and much will depend on the report of an inquiry into the whisky trade to be held by the Australian Industries Assistance Commission.

The Distillers' Company reaction to the EEC ban on their dual pricing policy for exports to Community countries, was unexpected. Instead of reducing their pre-tax price of whisky sold to the Continent, they have withdrawn Johnnie Walker Red Label and Dimple Haig from the UK market and have asked the Price Commission to allow an increase of 50p per bottle on their other brands with the exception of Haig. As a result there is considerable uncertainty while the industry waits to see if the action will accelerate DCL's already declining share of the UK market.

*METAL
MANUFACTURE*

Output of metals in the first two quarters of 1977 was 2½% above that of the corresponding period of 1976. However, this increase was only sufficient to bring production up to 75% of its 1970 level. A further modest increase in output can be expected in 1978 as demand picks up. Our previous forecast of 4% growth in 1978 may well be close to the outcome. However, increases of this magnitude can easily be accommodated by the existing plant and labour force. Both in the short and in the long term the outlook for this industry in Scotland is gloomy. World overcapacity persists, and many countries are considering measures to protect their domestic producers. Meanwhile, developing countries are expanding their capacity and as a result many of the traditional export markets of the industrialised nations will disappear. Increased competition between established producers is likely to result in further protectionism. These pressures, coupled with extravagant expansion plans, have placed the British Steel Corporation in a critical financial position. The Department of Industry have admitted that losses in the region of £500m are expected this year. Further expansion in Scotland at Hunterston seems unlikely after the report of the Commons Select Committee of nationalised industries. The report also calls for a progressive reduction in the workforce over the next five years. Already, redundancies at Glengarnock are imminent.

ENGINEERING

The index of production for engineering in total remained static at 106 between the first and second quarters of 1977. In the UK the index fell from 101 to 100 in the same period. The higher absolute level of the Scottish index is wholly due to the rapid expansion of electrical engineering in Scotland between 1970 and 1977. Other engineering industries - in particular mechanical engineering and vehicles (including ships and aircraft) - have experienced more difficulty in expanding in Scotland than in the UK as a whole.

The October 1977 CBI industrial trends survey revealed that some expansion is expected in the mechanical engineering sector. This is consistent with the expected upturn in investment which has been forecast for the UK in 1978. Further, firms which aggressively marketed their products abroad when sterling was at its low point in early 1977 may still be producing for export. However, export profitability may have fallen if prices have had to be reduced to compensate for the increasing strength of sterling.

In spite of the achievements of the Offshore Supplies Office, there has been concern about a recent increase in offshore orders going abroad. It has been pointed out that with the development of smaller, more marginal fields, and the expected stability of oil prices over the next few years, costs will be of crucial importance to oil companies when awarding contracts. Uncompetitive prices were a major factor in the recent demise of two module building yards. John Brown Engineering (Offshore) has now closed down and Foster Wheeler (Offshore) of Dumbarton are being maintained on a care and maintenance basis. They are still bidding for offshore work and have tendered for the module work for the Thistle B platform.

The CBI survey also revealed buoyant expectations of new orders in the electrical engineering sector. The output index for this industry stood at 168 in the second quarter of 1977, with the UK index, surprisingly, more than 50 points behind at 113. In the light of these optimistic expectations our previous forecast of 11% growth in electrical engineering in 1978 does not seem excessive. The electronics industry, the major impetus for growth in this sector, is having difficulty in retaining its skilled work-force - a difficulty which has been exacerbated by successive rounds of pay restraint.

The outlook for vehicles (including ships and aircraft) is not so hopeful. Output in the second quarter of 1977 stood at an index level of 90. Although this was a 25% increase on the corresponding quarter of 1976 the prospects for long term growth in this area are not good. Output of the new Sunbeam at the Chrysler plant at Linwood in the last quarter of 1977 was substantially reduced by strike action. This plant was blamed for the £19m deficit which the company incurred in the first nine months of 1977. However, a thirteen point package of recommendations aimed at improving productivity and industrial relations was accepted by the unions and management in mid-December. Since the strike, car output has risen substantially from 20 to 36 cars per hour, as against a target of 42. Whether this will be sufficient to ensure viability

of the Linwood plant remains to be seen. The British Leyland tractor plant at Bathgate has been successful in expanding its export orders by 75% in the first nine months of 1977, resulting in the introduction of night shift working. Whether this performance can be maintained will depend on foreign customers' reaction to sterling fluctuations vis-a-vis the local currency and on British Leyland's ability to hold off foreign competition in what is becoming an increasingly tight market.

New car registrations totalled 36,179 in Scotland during August, September and October, against a total in England of 348,208. This gives a relative of 10.4%, slightly lower than the 11.2% which one would expect on a simple pro rating by population.

In response to falling world demand and overcapacity shipbuilding industries in many countries have been contracting and undergoing painful rationalisation programmes. The Japanese, largely as a result of European pressure, estimate that their foreign orders for 1977/78 will be half the 1976/77 figure. The EEC may require members to cut their capacity by 45% by the early 1980's. The Polish order of twenty four ships, which has been criticised by some observers, is understood to have attracted £28m subsidy from the intervention fund. British Shipbuilders argue that the order will also give a two year breathing space while they construct a corporate plan. The employees at yards allocated contracts had to accept certain conditions laid down by British Shipbuilders to ensure completion of delivery dates.

In Scotland, the Polish order, has averted immediate redundancies in a number of yards. Govan Shipbuilders, where orders are most urgently needed, have been allocated ten 4,400 ton bulk carriers and one of the 16,500 ton ships originally intended for Swan Hunter. They are still waiting to hear whether their tender for four ships for the Philippines will be accepted. Rob-Caledon in Dundee are to build two 4,400 ton ships and two crane barges as part of the Polish contract, and Scott Lithgow are to build a further two 4,400 ton bulk carriers. They are also pursuing British Navy contracts and an order to build a £25m emergency support vessel for BP's operations in the North Sea. The latter contract, where foreign competition is intense, would enable the company to develop in an important new field. John Kincaid are to build five engines as part of the Polish deal but at Barclay Curle, marine engine builders, 94 workers from the 500 workforce are to be made redundant.

*TEXTILES, LEATHER
AND CLOTHING*

The index of industrial production suggests that output of textiles fell by 7% between the first and second quarters of 1977 although, at 106, the index for the second quarter was 3% above the corresponding figure for 1976. Increasing competition from developing countries has restrained growth in this industry in the UK, where the production index stood at 98 in the second quarter of 1977, substantially lower than in Scotland. The explanation for the difference between Scotland and the United Kingdom may be that Scottish textiles and clothing tend to be more 'up-market' than in the UK and are thus less threatened by low quality goods from developing countries which are flooding world markets.

*BRICKS, POTTERY,
GLASS & CEMENT*

Output of bricks, pottery, glass and cement stood at 92% of its 1970 rate in Scotland in the second quarter of 1977, 2% down on the previous quarter's figure. This decline will, in part, reflect the poor performance of the construction industry. Any growth in this sector is likely to be small during 1978. Our October forecast of zero growth may however be a little pessimistic in view of the recent expansion in the demand for glass.

TIMBER

Failure to ensure adequate domestic supplies of wood threatens many jobs in the timber industry. It is becoming clear that countries are now less willing to supply raw timber to be processed in the UK, preferring instead to process and so add value and provide jobs domestically. At 105 the index of industrial production for the timber and furniture sector shows a continuing decline since 1973. Meanwhile the problems of Scottish Timber Products of Cowie in Central Region continue unresolved. An agreement by the Scottish Development Agency and Pelos of Finland to take over the bankrupt firm has been delayed while the Bank of Finland scrutinises the arrangement.

PAPER

Forecasts for the paper industry suggest that an annual growth rate of 3.3% can be expected in the EEC over the next five years. Such a rate of growth will not be sufficient to enable the industry to expand to 1970 levels of output.

CONSTRUCTION

The construction industry in Scotland is still in a very depressed state. The output index for this sector stood at 91 in the second quarter of 1977, seven points down on the corresponding quarter of 1976. The decline has been particularly severe in public sector housing where only 3,566 houses were completed in the third quarter of 1977. This compares with an average quarterly figure of 8,727 in 1970 when public sector housebuilding reached its peak. As mentioned in our last Commentary, Strathclyde region has been particularly badly affected, only accounting for 43.3% of public sector housing completions in the first three quarters of 1977 - when a figure of 47.8% would be expected on population shares. Private sector housing has not been nearly so badly affected. In fact, 1976 was a record year for private house completions in Scotland. In 1977, provisional figures suggest that total completions may be less than the 13,704 attained in 1976. The relative buoyancy of the private sector may suggest the beginning of a move away, on the part of households, from the traditional domination of Scotland's housing market by the public sector, or perhaps it is a reflection of the setting aside of capital spending in favour of current spending by the local authorities as a result of the government's financial strictures. The number of new houses ordered also reflects this shift. In 1976 the number of new houses started in the private sector at 16,305 exceeded the number in the public sector for the first time.

Provisional figures for the third quarter of 1977 show an 11% fall in the total value of new orders received by contractors after a rise of £67m in the previous quarters. However, with the expected rise in investment in 1978 and with the rise in consumers income the demand for construction work can be expected to pick up in both the industrial and housing sectors.

Also, the demand for oil platforms can be expected to rise in 1978, with between seven and twelve orders expected, although none have been finalised since the Tartan contract was signed in the Autumn. However, the disagreement surrounding the proposed development programme for the Beatrice field may result in delays in placing this order. It is now evident that Portavadie, and probably Hunterston, will be closed in the near future. A critical report from the Public Accounts Committee of the House of Commons considered that the annual maintenance costs of £400,000 were not justified and that the £25m capital costs should be written off. The outlook at the other concrete yards is also bleak. Howard Doris will have no work after the Ninian central platform is towed out in the Spring, and McAlpines at Ardyne Point

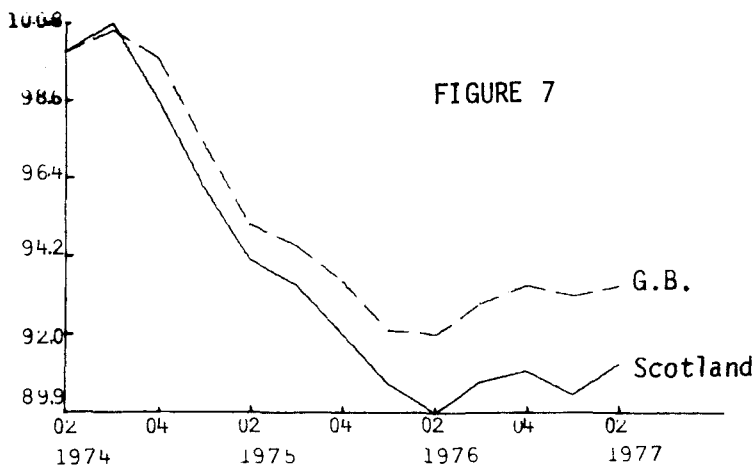
has a small care and design staff. Discussions are taking place, however, with Scott Lithgow about developing a new floating transfer platform, part steel part concrete, termed 'Scotbuoy'. The three steel platform yards are all currently working on contracts while actively seeking further orders. At Redpath Dorman Long in Methil the workforce is being built up to 450 to work on the joint UIE venture for the Tartan field.

EMPLOYMENT AND UNEMPLOYMENT

In the year ending June 1977 public expenditure cutbacks had already reduced manpower in the Local Authorities in Scotland by 3½% to 248,079 (full-time equivalent); the comparable fall in England and Wales, however, was only 0.8%. The brunt of the loss was borne by ancillary school staffs and construction workers. To some extent the surpluses in the budgets of the Scottish regions over the past year were achieved at the expense of these jobs, and holding down rates in 1978 will maintain this situation.

In contrast, the latest employment estimates, for June 1977, show a marginal rise in manufacturing employment (0.3%) but a marked rise in employment in services (2.7%) from the previous quarter (see Figures 7 and 8). Given the fall in Local Authority manpower this latter rise is surprisingly large, and, even allowing for seasonal factors, an adjustment downwards may be expected. The Department of Employment's latest revisions, in the light of the 1976 Employment

EMPLOYMENT IN MANUFACTURING [INDEX]



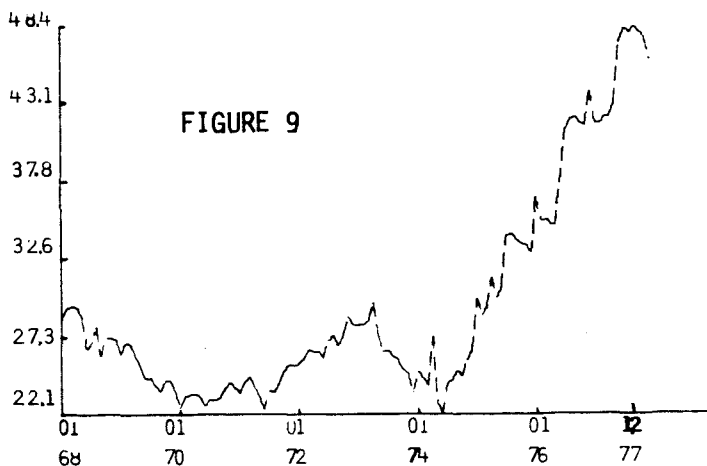
EMPLOYMENT IN SERVICES [INDEX]



Census, indeed show that the present recession has hit Scottish manufacturing more severely than other UK regions. Since June 1974 manufacturing employment in Great Britain is estimated to have fallen by 6.5%, but in Scotland the estimated decline is 9.3%.

The increase in service employment was reflected in both the male and female figures, increasing by 1.1% and 1.9% respectively, over the second quarter of 1977. The 10,000 fall in male employment between June 1976 and June 1977 contrasted with a 9,000 rise in female employment. This situation of changing employment rates was also indicated in the female/male unemployment relative, 46.1 in December (see Figure 9), the ratio having fallen as relatively more

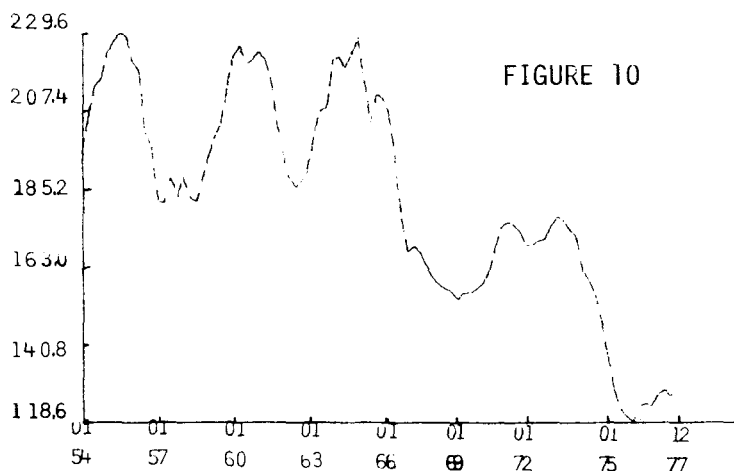
UNEMPLOYMENT RELATIVE : FEMALE/MALE * 100



men have joined and remained on the register since the summer.

The underlying trend of Scottish unemployment was still steadily upward during the autumn so that by December it stood 7000 above September's figure. Although this is contrary to the rest of Great Britain the divergence was not unexpected. In our last Commentary we suggested a deterioration in the Scottish/G.B. unemployment relative as the effects of Government cutbacks and the abolition of Regional Employment Premium (REP) were felt. This is now seen to be the case with the ratio rising to 128.5 (see Figure 10).

UNEMPLOYMENT RELATIVE*SCOT/G.B.: 1954-77



The inconsistency of Government Regional Policy has been criticised in the Commentary before, but this specific change poses its most significant threat to the predominantly 'male' industries of engineering and metal manufacturing. These, of course, are centred on Strathclyde. With a male unemployment rate of 11.6% and with further redundancies imminent (see the next section), the region therefore faces a gloomy future.

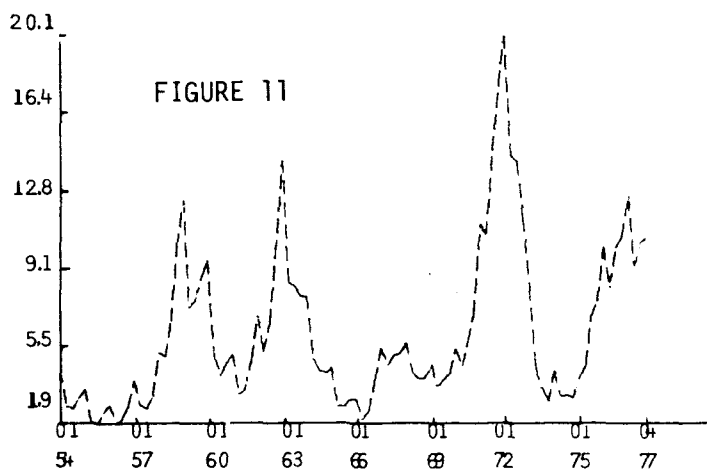
The removal of REP, equal to about 4.2% of labour costs, will undoubtedly deter investors, given the higher transport costs in Scotland. The Scottish Office's own forecast of the resultant loss of jobs is 20,000 by 1980, which will mean a fall in living standards in Scotland vis-a-vis the rest of Great Britain as well as a rise in unemployment of up to 10%.

Over the quarter the duration of unemployment continued to lengthen

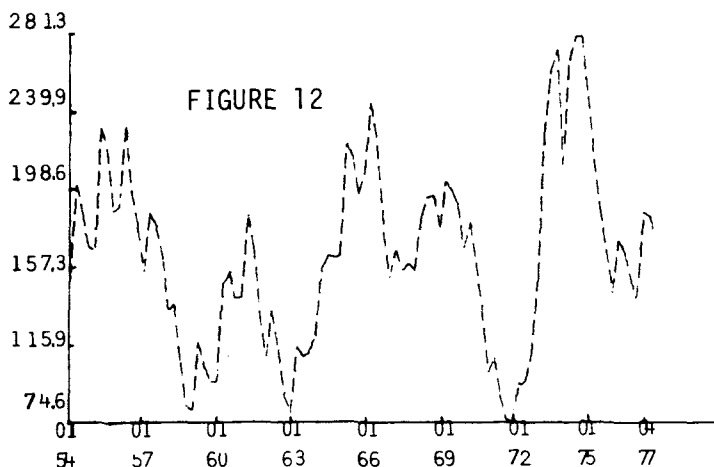
(see next two pages). A comparison with November 1975 shows that in November 1977 nearly 50,000 more Scots had been unemployed for more than two months.

The unemployment /vacancies ratio continued to deteriorate, rising to 11.2 in December, and, on published statistics, to 83 and 54 in such unemployment blackspots as Clydebank and the East End of Glasgow respectively (see Figure 11).

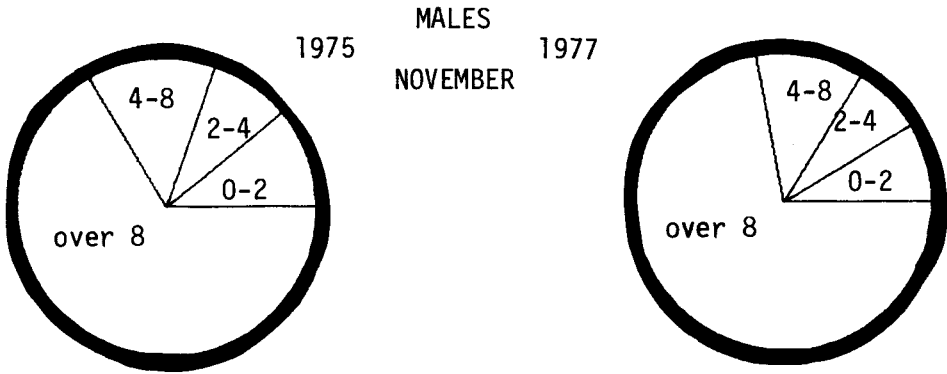
SCOTLAND, UNEMPLOYMENT/VACANCIES, 1954-77



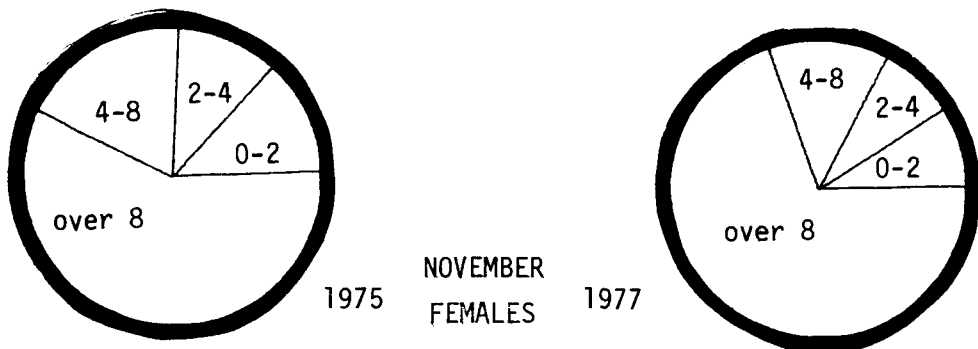
VACANCIES IN SCOTLAND, 1954-77 [HUNDREDS]



DURATION OF UNEMPLOYMENT IN WEEKS



1975	MALES	1977
10.91%	0-2 weeks	8.64%
8.71%	2-4 weeks	7.61%
13.83%	4-8 weeks	11.80%
66.55%	over 8 weeks	71.95%
95733	MALES	125460
32029	FEMALES	59730
	FEMALES	
12.71%	0-2 weeks	8.79%
11.12%	2-4 weeks	8.35%
18.32%	4-8 weeks	13.12%
57.84%	over 8 weeks	69.74%



Unemployment & Vacancies in the Regions of the UK: December 1977

	Unemployment (000's)	Unemployment Rate	Vacancies (000's)	Unemployment/ Vacancies
South-East	332.7	4.4	74.3	4.5
East Anglia	37.0	5.3	5.3	7.0
South West	114.2	7.1	8.7	13.1
W Midlands	127.7	5.5	12.1	10.5
E Midlands	78.2	5.0	11.3	6.9
Yorks & Humberside	122.2	5.9	12.7	9.6
North-West	212.7	7.5	13.6	15.6
North	118.2	8.7	8.4	14.0
Wales	90.8	8.5	6.3	14.5
N Ireland	61.1	11.2	2.1	28.7
Strathclyde	108.7	10.1	7.7	14.1
Rest of Scotland	77.5	6.8	8.9	8.9
Scotland	186.2	8.4	16.6	11.2

Unemployment in the Scottish Regions: December 1977

	Sept '77 (000's)	December '77 (000's)	Percentage Change	Unemployment Rate
Highlands	6.1	7.1	+ 17.4	10.3
Shetland	0.2	0.2	nil	3.9
Orkney	0.3	0.3	+ 10.0	5.9
Western Isles	0.9	1.0	+ 14.8	12.7
Grampian	7.5	8.3	+ 11.8	5.0
Tayside	12.6	12.9	+ 2.6	7.8
Fife	11.0	10.3	- 5.6	7.9
Strathclyde	112.8	108.7	- 3.6	10.1
Lothian	24.2	23.4	- 3.1	7.1
Central	7.9	7.8	- 8.4	7.1
Dumfries & Galloway	4.2	4.4	+ 9.2	8.7
Borders	1.6	1.7	+ 1.5	4.3
Scotland	189.1	186.2	- 1.5	8.4

Regional and Local Unemployment

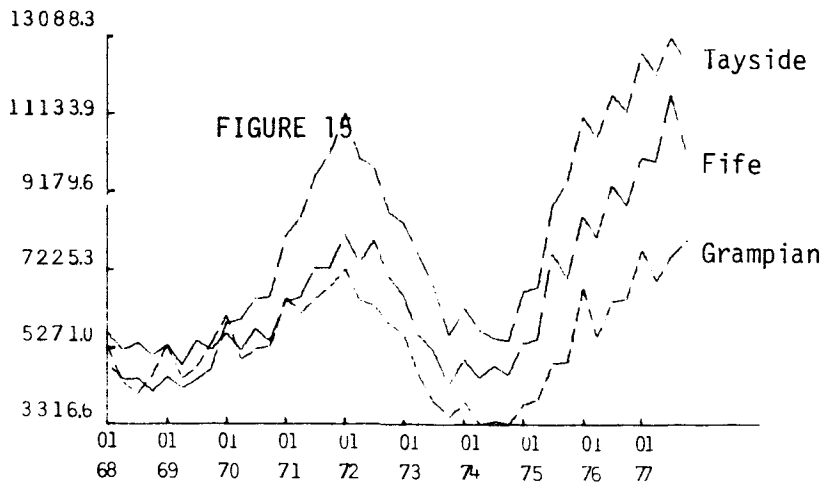
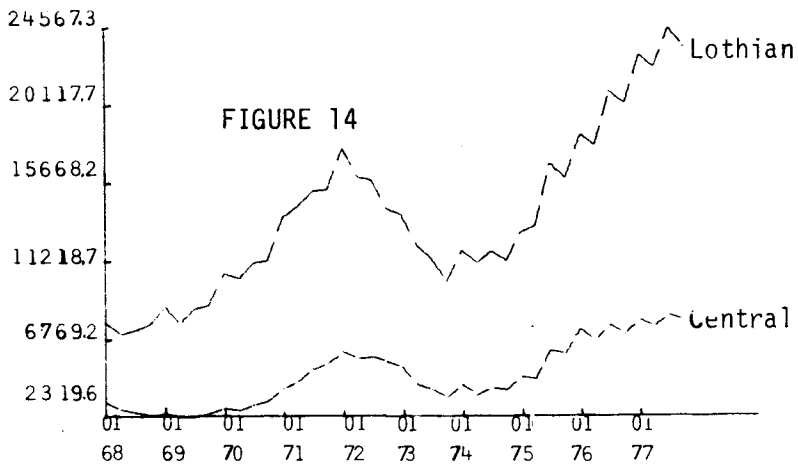
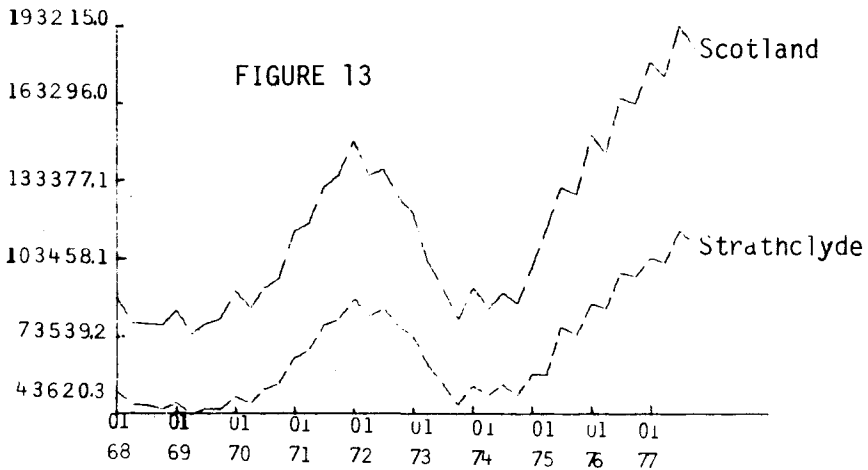
With unemployment at record levels nationally, several rural areas are seeing the return of male unemployment rates more associated with the 1930's. Thus, in parallel with the districts of Kilsyth (21.3%), Lesmahagow (24.4%) and Sanquhar (15.8%), which have never recovered from the rundown of the coal industry, the coming closure of the steel works at Glengarnock in N Ayrshire threatens to raise unemployment to over 30% locally.

Ayrshire and Argyll in general are already suffering male unemployment rates of 13%. Compounding the failure of the tourist season and the failure of the Campbeltown, Portavadie, Hunterston and Ardyne yards to win any oil platform orders, the failure to provide winter employment in Argyll, Bute, Arran and the Ayr coast has resulted in male unemployment rates of 15% in West Ayrshire, 16.1% in Girvan, 16.6% in Largs and a staggering 29.2% in Rothesay. Against this background, the "saving" of 450 jobs at Glenfield and Kennedy in Kilmarnock, a loss itself of 600 on last July's workforce, is small comfort.

Elsewhere in Strathclyde (10.1% unemployment) the outlook is equally gloomy, with two areas of high unemployment probably giving the greatest cause for concern over the coming months. In Clydebank, the US owners of the Singer factory are reducing the workforce by 1100 before December 1978 due to foreign competition, and the Co-operative Wholesale Society are closing their biscuit factory making 330 redundant. In Wishaw, foreign competition is likewise blamed for the loss of 217 jobs at the Smith's clock factory. At both Singer's and Smith's the redundancies threaten the viability of the rest of the plant, so deepening fears for the future. Of the men released in Wishaw only 14 are skilled, reflecting the chronic shortage of skilled workers in Strathclyde.

However, the main redundancies in North Lanarkshire (11.0%), from the steel industry, are yet to be announced. The Scottish steel industry, having recently lost 30 of its 34 open hearth furnaces and a consequent 1250 jobs, is to be further decimated in 1978 with an expected 3000 redundancies directly and a substantial number indirectly. This reduction in the workforce, rather than being controlled, as under the Beswick plan, is likely to take place so quickly that alternative employment opportunities for steelworkers will be difficult to obtain. Negotiations are now involved with the timing of closures rather than with new investment, and hopes for an integrated steelworks at Hunterston are fading fast.

NUMBER UNEMPLOYED BY REGION 1968-1977



The problems of the North Lanarkshire area are potentially similar to those of the East End of Glasgow. Unfortunately the indicators from the Government/BSC attempts to replace jobs there are disappointing. The 500 acre site at Cambuslang - the Government's prestige industrial development and land rehabilitation project - has failed to attract any employer. The Ford Motor Company's £180m engine plant would have been the obvious type of development to promote to form the nucleus of an industrial revival. Rumours that the Scottish industrial development agencies were not made aware of this opportunity until the location was already settled are very disturbing.

The only bright spot in Strathclyde, Paisley (6.8%), itself now faces a rise of 400 in unemployment as the cost of modernisation in the textile industry. However, the news that Babcock and Wilcox have secured a share in a £100m power station order for Hong Kong, thereby safeguarding about 400 skilled engineering jobs in Renfrew and Dumbarton, is to be welcomed.

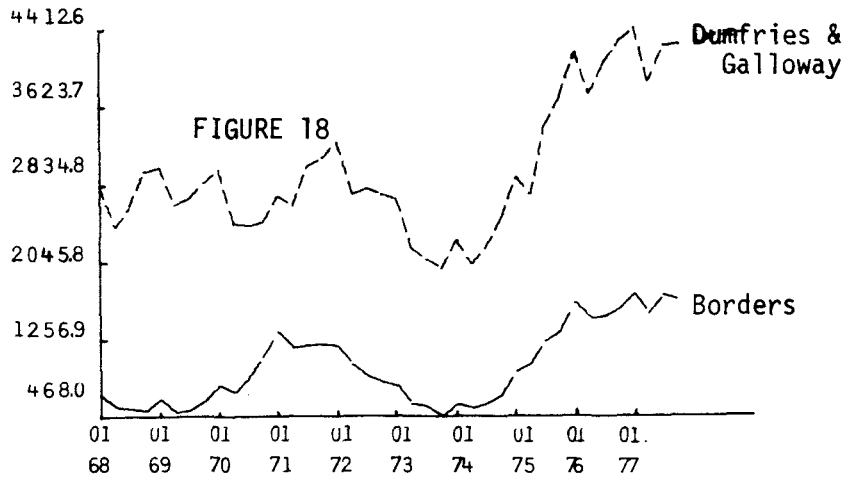
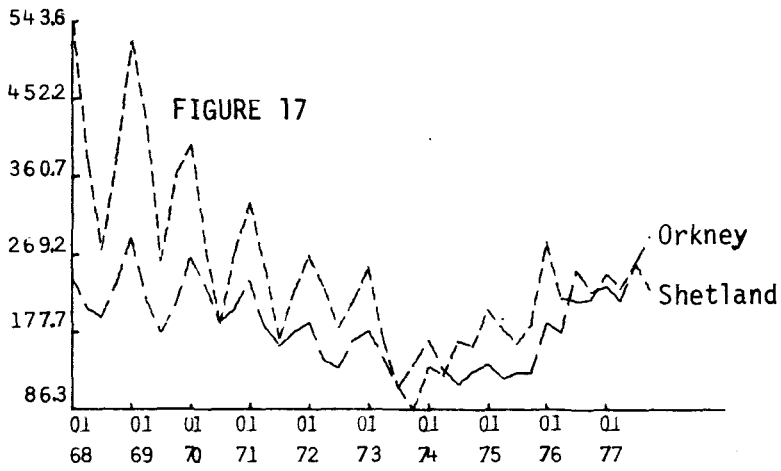
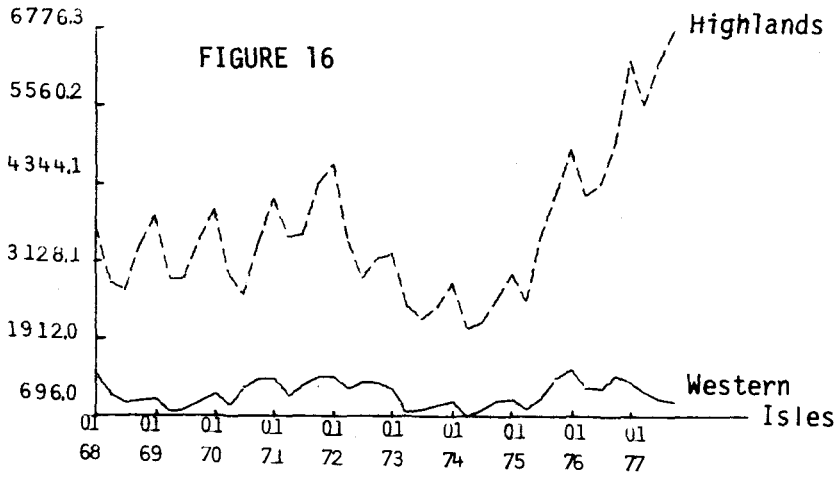
In Lothian and Central (both 7.1%) unemployment has been stable since June though there could now be a slight fall if consumer spending is boosted by higher real incomes. Apart from such a general and sustained expansion in the economy, the only definite, though limited, hope for the future is the situation at Leyland's Bathgate and Glasgow plants. With shift-working now the norm, due to high export orders, the management aims to double the workforce from the present 8709 by the early 1980's.

The build-up at the Methil yard in Fife (7.9%) to 450-500 jobs by February is expanding the job opportunities in the east of the region; There are hopes for a return to the 1400 figure of previous years, though admittedly many of these will be migrant workers.

Outside the Central Belt of Scotland, unemployment has risen sharply in all the regions during the autumn, with seasonal factors, continuing fishing industry difficulties, and a reduction in oil-related activity being the chief causes. As predicted in previous Commentaries, unemployment in Grampian (5.0%) has started to increase relative to the Scottish figure, and against its normal seasonal trend. This does not augur well for the future, especially when linked with the change in development area status of the Aberdeen district and the withdrawal of REP. Tayside (7.8%) has experienced a smaller rise in unemployed since September though, as elsewhere, the rural areas have shown a higher increase.

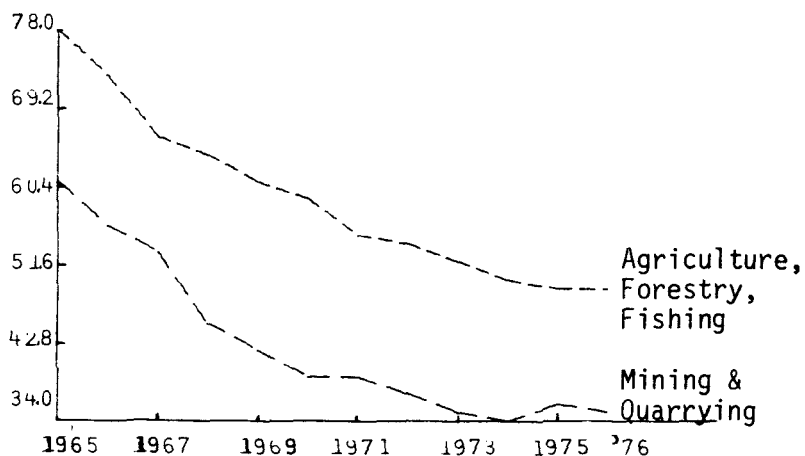
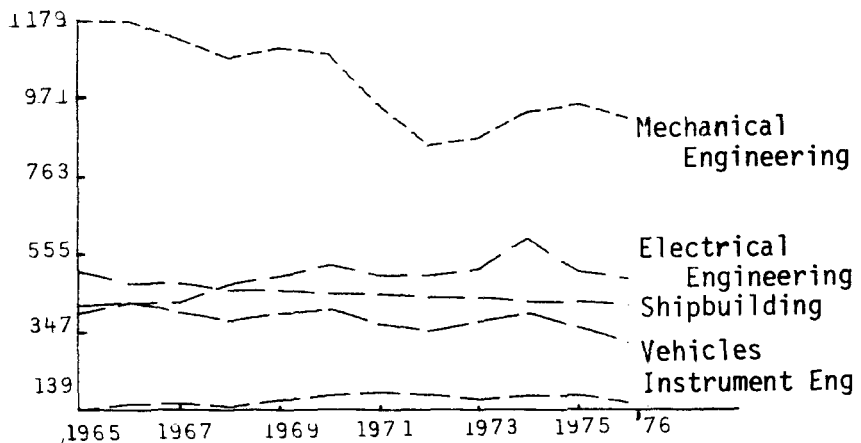
Unemployment is still below the UK average in Shetland (3.9%), Orkney

NUMBER UNEMPLOYED BY REGION 1968-77



(5.9%) and the Borders (4.3%), but above it and rising in Dumfries and Galloway (8.7%). The Highlands experienced the largest regional rise, 17.4%, over the quarter to reach a rate of 10.3%. Some improvement in the summer can be expected if a platform order at Nigg can be obtained. The problem of dependence on short-term employment measures may soon be realised in the Western Isles, especially if the Job Creation Programme is modified or centralised. Prospects for permanent on-shore employment in the fishing industry look hopeful as the fishing fleet is increasingly pushed towards the North Atlantic fisheries. With this in mind, the embryo co-operatives in the islands are a welcome attempt at experimentation.

EMPLOYMENT ESTIMATES : SCOTLAND [000s]



OUTLOOK AND APPRAISAL

In order to enlarge our coverage of recent developments in the Scottish economy, the outlook section has been considerably extended to include an appraisal of recent events. Before dealing with the outlook, a number of topics of current interest in the Scottish economy are examined in this issues. These are:

- (a) The Scottish/UK relative
- (b) The first annual report of the SDA
- (c) Regional development grants

The Scottish/UK Relative

Some concern has been expressed recently that Scotland's economic position relative to the rest of the UK has been weakening over the past few months. After a number of years of more rapid expansion, it has been suggested that Scotland will not grow as fast as the rest of the UK in 1978. As mentioned in the 'Indicators' section the CBI October 1977 survey is more pessimistic for the prospects for the Scottish economy than for the UK as a whole. A number of other indicators confirm this view. Further, recent increases in the unemployment relative (the ratio of unemployment in Scotland to that in the UK (seasonally adjusted)), have led to a suspicion that unemployment will continue to be a problem in Scotland after a recovery has been made in the rest of the United Kingdom.

The question of whether a lapse in Scotland's relative economic performance has occurred, and, if so, the extent of this lapse, is clearly crucial to one's view of economic developments in Scotland during 1978. A balanced outlook on this question necessitates a review of past trends as well as consideration of the current situation. It is certainly the case that the unemployed relative stood higher in the fourth quarter of 1977, at 128, than it did in the fourth quarter of 1975 when it was 120. However, it is still considerably less than the figure of 224 which it attained in the fourth quarter of 1964. If the relative had remained at that level there would have been 348,000 out of work in Scotland in December 1977. Such a situation would be unthinkable, politically or socially. However, one should not conclude that, because a return to 1964 levels of unemployment relative is unlikely, Scotland's performance in any absolute sense is favourable. Both in Scotland and in the UK as a whole, unemployment has risen rapidly

over the last three years but the rise in the rest of the UK has been more rapid than in Scotland even though unemployment in Scotland is now more than twice its 1964 level. Thus, the correct interpretation of the improvement in the unemployment relative over the past three years is not that Scotland has done relatively well: rather that the rest of the UK has done relatively badly.

There was a well established pattern during the fifties and early sixties whereby, in response to an expansion of demand, unemployment tended to fall more rapidly in the rest of the United Kingdom than in Scotland. It was at these periods of recovery in the rest of the United Kingdom that the unemployment relative in Scotland tended to reach a peak. An argument to explain this phenomenon would run as follows. In the traditional 'stop-go' cycle of the fifties and sixties government tended to expand demand by increasing consumer spending. Consumer based industries were at that time concentrated in the South-East of England and these were the first to expand as a result of the government stimulus. Only after some delay did the demand for intermediate and capital goods increase and thus regions, like Scotland, which tended to concentrate on heavy goods continued to suffer high unemployment while the level was falling in the rest of the country.

The current situation is clearly similar to that described above in the sense that an expansion of the UK economy is undoubtedly about to take place. However, there are three reasons which lead one to suspect that a substantial deterioration in Scotland's unemployment relative is unlikely.

Firstly, the expected expansion will, hopefully, not be solely concentrated on consumer goods. Although tax cuts in the budget will boost consumer spending (with some leakage to increased saving) an expansion of investment during 1978 is expected by the National Institute at almost the same rate as that of consumption. Further expansion of exports is also expected and the October CBI survey revealed buoyant expectations of increased exports, particularly in Scotland. Thus, if expansion occurs in all goods and not just consumer goods, there is no reason to expect that a region where industry is concentrated on heavy goods should lag behind in the expansion.

Secondly, there have been marked changes in Scotland's industrial structure in the past few years away from a heavy engineering orientation. Between 1965 and 1975, 64,000 jobs were lost in

shipbuilding, mechanical engineering, metal manufacture and mining. This simply means that, although there are areas, such as steel-making, which are still under considerable pressure to reduce their workforce, the number of jobs which could potentially be lost is much less than it was in the fifties and sixties. Expansion of employment in services by 118,000 over the 1965-75 period has rendered the Scottish economy much less sensitive to fluctuations in aggregate private demand. Over the last year it has become apparent that service employment is sensitive to fluctuations in public expenditure. However, given that government spending is currently running well below forecast levels, further staff cutbacks in this sector seem unlikely. Thus, given the greater diversification of the Scottish economy currently, there is less reason to expect a lagged response to changes in aggregate demand relative to the rest of the country.

Thirdly, over the past ten years the wage gap between Scotland and the rest of the UK has narrowed considerably. Indeed for male manual workers in April 1977 average weekly earnings for Scots (males:manual) at £72.5 exceeded the UK average by £1.00. In the early sixties the average Scottish wage was around 7% lower than the UK average. Therefore, other things being equal, an expansion of employment in Scotland is now likely to exert greater upward pressure on the demand for local goods and services than it did in the past. Thus, relative to the rest of the UK, the improvement in average Scottish wages means that employment growth is more likely to be self-sustaining than was the case a number of years ago. There is the possibility, of course, that one effect of the relatively slacker labour market in Scotland would be to considerably worsen the wage relative. However, the most recent statistics suggest that, although the wage relative is not continuing to improve in Scotland's favour there has been no marked deterioration.

Counter to these arguments, the abolition of REP may well have a detrimental effect on the unemployment relative. As mentioned in the employment and unemployment section, recent Department of Employment estimates show that, in 1975, REP reduced the aggregate Scottish wage bills by 4.2%. Its removal has raised the cost of labour in Scotland relative to the non-assisted areas. As pointed out previously, (see UK section), removal of the subsidy will have income, as well as substitution, effects. The substitution effects comprise two components, namely:

1. the extent to which capital is substituted for labour at the existing location
2. the extent to which labour in the non-development areas is substituted for labour in the development areas.

The income effects will result from a drop in profits or in the rate of growth of wages. Any estimate of the total job loss, therefore, must be extremely tentative, though, as mentioned earlier, (see Employment and Unemployment), one study claims that around 20,000 jobs have disappeared as a result of this policy change.

In conclusion, the upward movement in the unemployment relative over the past few quarters is unlikely to portend a return to the poor relative performance of Scotland which occurred in the early sixties. This is both because of the nature of the expected expansion in the UK economy, and the change in the distribution of employment in Scotland. However, the removal of REP is likely to have a detrimental effect on the relative, at least in the short-run. With this in mind, one would expect to see an increase in the relative during 1978, but this increase being much less dramatic than the fall which occurred between 1974 and 1976.

Annual Report of the Scottish Development Agency

The report of the first full year of operations of the Scottish Development Agency for the twelve months up to 31 March 1977 became available towards the end of 1977.

This report is noteworthy in three respects. First, with the exception of its involvement in the Glasgow Eastern Area Renewal scheme (GEAR), the report gives a full and detailed disclosure of its activities. So far as it is possible to judge, it does not conceal any of the difficulties which have arisen in particular cases. Secondly, in two sections entitled "Purposes and Priorities" and "The Investment Function Policy" the principles which underlie the SDA's investment behaviour are clearly set out. There must be a commercially acceptable prospect of an appropriate level of profit within a reasonable period of time. The report says that the Agency will stick to this viability test not just because it is required to do so, but because it is essential to its aim of fostering sound development. Where it makes an equity investment however, the Agency is prepared to forego cash dividends where there are profitable opportunities for reinvestment within the company. This, together with the agency's disinterest in long-run control could make SDA equity participation an attractive proposition for many companies. Finally, the report makes it clear that the Agency will not invest unless there exists or there is the prospect of good management. These principles are stated with commendable frankness and are almost completely free from cant.

Thirdly, the Agency has correctly identified the crucial factor in the present stage of development of the Scottish economy as an insufficiency of innovative indigenous management. The report recognises that it does not have the resources nor the powers to transform the Scottish economy, and therefore sees its role as a catalyst in promoting 'new starts'. It rightly points out that it is on such 'new starts' that future job security depends.

Thus, the SDA does seem to be starting from the right principles. Whether it will be successful in realising its objectives will depend on many factors outside its control, and a number of years will have to elapse before it will be possible to make a fair judgment about its progress. In this period of time there are bound to be several failures, and the SDA should be judged by the extent of these only in proportion to the extent of its successes. It does of course have a number of tasks thrust upon it by government, and one of these appears to be the GEAR project. After a period of years in which the principle of comprehensive urban re-development has apparently been discredited by experience throughout the world, it is surprising to discover another such scheme being launched in Glasgow.

Regional Development Grants

The 1972 Industry Act was passed with the aim of increasing capital expenditure in the development areas. Two forms of assistance were provided; one selective, the other a non-selective grant payable on most capital investment in manufacturing and construction. A quarterly summary of the major payments to firms operating in Scotland under this act has been appearing in Trade and Industry (HMSO) for the last two years. Through these summaries, some assessment of the operation of the Act can be made.

One particular feature of the information is the extent to which the non-selective grants have been utilised to facilitate the expansion plans of nationalised industries and multinational firms. Given that these industries are fairly capital, or skill, intensive, investment by these firms would seem to imply a degree of commitment to the Scottish economy, given that the costs of relocating would be extremely high. However, if investment takes place as a result of misleading market forecasts, the existence of non-selective regional development grants acts so as to encourage non-viable projects. Of course, there are many circumstances in which one would wish to encourage risk-taking. However, when the capital sums involved are very large, there is a strong argument that regional assistance should be made available solely

on a selective basis, where government can assess the viability of a project before committing resources to it.

In particular, the British Steel Corporation in Scotland has benefited to the extent of £28 million during the last three years from non-selective regional development grants. This is more than the combined total of grants to British Petroleum, ICI and the National Coal Board and has come at a time where it is clear that prospects for the steel industry, worldwide, are gloomy. The complete disarray which has now struck the industry raises the question of whether a reduced rate of assistance to BSC would have curbed over-optimistic expansion plans and so freed more public resources to assist in the re-employment of workers whose redundancy now seems imminent.

Outlook

The outlook for the Scottish economy during 1978 depends primarily on the extent to which the Chancellor decides to reflate the UK economy in his April budget. Performance during 1977 was disappointing. A substantial rise in unemployment over the year was accompanied by no real rise in output (see Industrial Performance). Without some substantial stimulus to demand during 1978, the outlook is equally bleak.

The effects of a stimulus to demand on the Scottish economy will depend on the exact nature of the stimulus. In this and previous Commentaries, it has been argued that taxes on employment, such as national insurance contributions, should be reduced. If both employee's and employer's contributions were cut, there would be an increase in consumers disposable income, and also an increase in the propensity of employers to take on labour. In Scotland, this measure would have the effect of offsetting the damaging effects of the removal of REP and would probably be more effective than simple reductions in income tax in tackling the prime economic problem of the moment - unemployment.

In our view any measures which are taken in April will take some time to have an effect on unemployment and thus, even though output should begin to rise, it is unlikely that anything more than a levelling out of the trend rate of unemployment can be hoped for. In our July 1977 issue, the seasonally adjusted level of unemployment for December was forecast to be around 175,000. This turned out to be slightly optimistic, with the outturn

actually being 178,400. In our October 1977 Commentary, this total was forecast to rise to around 185,000 by April 1978, and we think it likely that it will remain around this level until June. Again, with a large number of school leavers beginning to look for jobs in that month, this would imply that total unemployment including school leavers, would be in the region of 200,000 in June 1978.