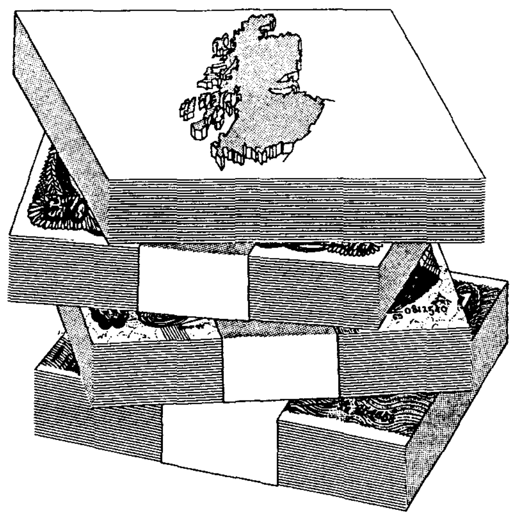
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

With the inauguration of the quarterly **Scottish Business Survey** (SBS) in September 1984 there are not two regular up-to-date indicators of trends in the Scottish industrial sector. The combination of the new survey and the long-standing CBI **Industrial Trends Survey** provides a comprehensive assessment of trends in Scottish industry. The two data sources are essentially complementary, but there are important differences between them. While the **CBI Survey** provides information on trends by size of firm, the **Scottish Business Survey** provides a geographical breakdown of responses. Equally, the CBI provides information on sectoral employment trends, while the SBS distinguishes between male and female employment, and in some sectors between full- and part-timers. In addition, the number of respondents to the SBS is well over twice that to the CBI survey, and they cover not only manufacturing but also construction, distribution and financial institutions. The results from the new SBS are therefore capable of a greater degree of disaggregation than those from the CBI.

Both surveys were conducted against a background of further reductions in the rate of inflation depressed; conditions in oil and non-oil commodity markets and a weakening of sterling against major European currencies and the US dollar. Though interest rates have been reduced on two occasions since the last survey, they remain high both in nominal and real terms.

SCOTTISH BUSINESS SURVEY

There is evidence in replies to the SBS of a weakening of business optimism: a balance of 20% of manufacturing respondents are less optimistic about their general business situation than they were three months ago. In construction and wholesaling too there is a deterioration in general business confidence reported and only in retailing and financial sectors is there any evidence of an expansion of activity.

The deterioration observed in general business confidence is brought into sharper relief by recalling that in the April Survey respondents (except those in oil and oil-related activities) were generally optimistic about their business conditions. The reversal now recorded would appear to be the result of expectations about increased new orders and sales in the past three months having been unfulfilled. In all markets: Scottish, rest of the United Kingdom and world, the trend in new manufacturing orders and sales was, on balance, negative, despite a depreciation in the value of sterling. Manufacturers continue to perceive orders and sales as the most likely factors which will limit output in the next three months even although there is some expectation of expansion: a balance of 8% of respondents expect a growth in new orders and a balance of 3% expect a growth in sales. Overseas rather than domestic markets are expected to account for most of the anticipated growth.

Pessimism prevails through the spectrum of manufacturing activity. Only in the Food, Drink and Tobacco sector are respondents, on balance, more optimistic about their general business conditions and even here optimism has waned considerably over the past quarter.

Respondents in the Chemicals sector are the most despondent of all. A balance of 41% of respondents are less optimistic about their general business situation than they were three months ago. It is not clear, however, what underlies this pessimism. Trends in new orders and sales, particularly in export markets, are up and there is no evidence to suggest that stocks of finished goods are high. Expectations regarding employment are, however, consistent with the gloomy prognosis and a balance of 21% report reductions in numbers employed with female employment expected to be hit slightly harder than that for males.

The overall picture in Metal Manufacture and Metal Goods remains much as before. Volumes of new orders and sales expected in the next three months are down and capacity utilisation remains at an extremely low level (36%). The outlook for employment reflects these bearish expectations with a balance of 36% of respondents expecting to shed labout in the next three months. This large negative balance suggests that the rate of lay-offs may be, once again, accelerating after a period in which it had stabilised.

Mechanical Engineering and Other Engineering sectors show little change over the previous quarter. Both sets of respondents remain pessimistic about their general business conditions; both expect a fall in new orders and sales; both are operating at extremely low levels of capacity utilisation and both expect to continue to lay-off labour. The prospects in the Electrical and Electronic Engineering sectors are not so gloomy, however. It is expected that increases in new orders and sales in the past quarter will be consolidated in the coming three months but is also indicated that the expansion in numbers employed in the sector will not continue. Indeed, a significant balance of respondents (70%) expect to reduce their numbers employed in the next quarter. Respondents report that the volume of new orders and sales is still the major factor inhibiting growth of output.

Recent indications that the Textiles, Leather, Clothing and Footwear sector may be suffering a reversal of good fortunes and further underlined by the most recent SBS returns. A balance of 34% of respondents are less optimistic about general business conditions and a further contraction in numbers employed appears to have occurred over the past three months. The volume of new orders and sales in the second quarter of this year are reported to have been particularly depressed vindicating the pessimistic outlook which was observed earlier in the year. There is little indication that a quick return to boom conditions will be made. Stocks of finished goods, work in progress and of raw materials are all high and are expected to remain so. Any expansion in new orders is therefore likely to have its most immediate impact on de-stocking rather than on activity. Two factors may help explain flagging fortunes in the sector: the appreciation of sterling against the US dollar in 1985 is likely to have had a damaging impact on exports to the United States. Second, the decline in the number of American tourists visiting the UK may now also be percolating through to the manufacturers of goods traditionally purchased by overseas visitors.

The Food, Drink and Tobacco sector stands alone in having a positive balance of respondents reporting increased optimism. It was remarked earlier, however, that respondents optimism in this sector is less marked than in the previous quarter. This may, in part, be explained by the fact that expectations about orders and sales in the previous quarter were unfulfilled. Despite this misplaced optimism in the previous quarter, respondents still expect orders and sales to be increased in the coming three months. It may, therefore, be the case that producers in this sector have wrongly anticipated the timing of new orders and that orders originally expected in the previous quarter will shortly be realised.

The returns for the Paper, Printing and Publishing sector are fairly unambiguous. The overall climate of pessimism about the general business environment is morrored in a balance of respondents expecting a downward trend in the overall volumes of new sales and new orders in the next three months. Stock accumulation in the previous quarter may further exacerbate any reduction in activity which results as a consequence of inadequate demand.

Finally, in regard of the manufacturing sector, the SBS indicates that respondents in the Miscellaneous Manufacturing sector are less optimistic about their general business than in the previous three months. This is perhaps surprising given expectations of expanded sales and orders but, once again, there is a suggestion that some de-stocking may still be taking place in the industry. Expectations about increased employment, recorded in earlier surveys, appear not to have materialised and these have now been revised with a large balance of respondents expecting to employ less male and female labour in the next three months.

Construction activity remains depressed. A balance of 38% of respondents report that they are less optimistic about their general business conditions than in the previous three months. Government and public sector orders, in particular, look set to contract yet further. The consequences of this for employment are predictable and a large balance of respondents confirm expections of a falling trend in the numbers of manual and non-manual workers they employ.

Whilst retail distribution reports expectations of increased sales in the coming quarter, wholesale distribution has a large balance of respondents who expect a contraction in sales. In both sectors further retrenchment in employment is expected.

Scottish financial institutions continue to exhibit signs of expansion with the demand for both personal and corporate advances maintaining past buoyancy. Demand for credit for working capital is the most important component of the continued expansion and service rather than manufacturing activity is the source of the demand.

In summary, the SBS gives a gloomy prognosis for the Scottish economy in the coming quarter. This contrasts with the previous quarter's findings but, for many sectors, previous optimism appears to have been misplaced and there is evidence that performance in the second quarter of 1986 fell below expectations. The previously observed flattening out of employment trends would now also appear to have stopped and yet further contractions in employment now seem inevitable.

CBI SURVEY

On balance, the findings of the CBI Survey for the second quarter of 1986 are not so gloomy as those of the SBS. The CBI Survey concurs with the SBS, however, in reporting increased pessimism and an expected faltering of output growth. The content of the CBI Survey is marginally more optimistic in respect of employment and investment intentions. Interestingly, the CBI reports that there has been a fall in average unit costs for the first time since the Scottish Survey was inaugurated.

Unlike previous Surveys, the latest CBI Survey suggests that larger firms managed to maintain output levels over the previous quarter. Smaller firms experienced a contraction. Hitherto it has been smaller or medium-sized firms which have generally fared better. Since larger firms are concentrated in the more traditional branches of manufacturing activity, the CBI Survey suggests that, if only in relative terms, there has been some improvement there. The findings of the SBS would endorse this view but whilst stagation may be better than decline, it can hardly be taken to signal a reversal for fortunes for traditional industry. It is noticeable that larger firms investment intentions are motivated primarily by the desire to increase efficiency and only a minority of respondents expect to increase capacity.

Interpretation of the results of the CBI Survey and comparison of these results with those of the SBS is troubled in many cases by the small number of respondents. For example, in 'Chemicals' there are a total of thirteen respondents in the CBI Survey and sixteen in the SBS. Differences in responses might then only be due to errors introduced by the smallness of the respective samples. Nonetheless, it is striking that whilst the CBI Survey suggest that the outlook in Chemicals is better than for any other sector in the economy, just the reverse is inferred by the SBS.

It was remarked earlier, however, that the responses to the SBS Survey for the Chemicals sector appeared to be contradictory. Like the CBI Survey, the SBS reports a positive balance of respondents who expect to experience an increase in orders in the next three months. The Surveys further concur in their view that export demand will be the major source of expansion. Whilst there are differences in reported intentions regarding employment and investment, the optimistic tone of the CBI Survey is the more plausible given the recent very large falls in the price of oil. If these are not all bargained away in increased wages, falling input costs should allow an expansion of output in the chemicals sector and/or an improvement in profitability.

There is further evidence in the CBU Survey to suggest that the Scottish Textiles sector is now experiencing contraction. As in the SBS, respondents report lower actual and prospective orders and output, and further retrenchment of employment is also expected. Any new investment which is now taking place is with a view to increasing efficiency rather than expanding capacity.

There is little difference in tone between the SBS and CBI surveys in respect of remaining sectors. Metals and Metal Maufacture and Other Manufacturing show no sign of recovery, whilst Food, Drink and Tobacco, once again, maintains the status quo on virtually all fronts but employment, where yet further losses are expected. The results for Mechanical, Instrument, Electrical and Vehicle Engineering are difficult to compare with those of the SBS because of differences in classification. The equivocal responses observed in this sector may be a consdequence of the different experiences of its subsectors. The sBS would suggest that Electrical and Electroic Engineering is continuing to experience buoyant conditions relative to Mechanical and other traditional engineering activities.

AGRICULTURE

Hitherto, worldwide influences on Scottish agriculture have expressed themselves mainly through markets. Exports of pedigree livestock and seed potatoes have traditionally gone to the most distant corners of the globe, while imports of meat and dairy products from countries such as Argentina and New Zealand have competed with domestic products on the home market. The release of radioactive material from the nuclear power station at Chernobyl in the Ukraine has now dramatically illustrated the vulnerability of agriculture in Scotland to more direct influences. On 24 June the Government announced a prohibition on the slaughter and movement off farms of all sheep in Dumfries and Galloway, Arran, and in parts of Easter Ross. One month later, the ban was extended to some southern parts of Strathclyde.

Although this prohibition was said to be purely precautionary to permit the further monitoring of sheep in these areas, and was only of three weeks' duration, it does mean significant losses for the farmers concerned. A high proportion of the lambs held back from the market were later rejected for the variable premium payment because they were too fat. The Government has accepted the principle of compensation in cases of substantial losses to individual farmers. However, the Government will not compensate farmers for the effects of the radioactivity scare on the consumer demand for home-produced lamb. Fortunately for producers, lamb prices have kept up remarkably well so far. Imports have been declining, while exports have maintained their previous high level. Thus production has been able to expand at a time when total supplies absorbed by the home market have been falling.

The problem of agricultural surpluses will be on the agenda when the new round of international trade negotiations under the auspices of GATT opens in Uruguay in September. At present both the United States and the EEC subsidise farm production, and then further subsidise agricultural exports in order to get rid of the surplus. The costs of these programmes are approximately £14 billion per annum in the United States and £15 billion (on top of national subsidies) in the EEC. While these policies benefit consumers in the importing countries, they damage other producers by maintaining artificially low prices for the products concerned.

When Spain and Portugal joined the EEC at the beginning of this year, they were immediately obliged to impose prohibitive tariffs on their imports of wheat, maize and sorghum from the United States. The United States has threatened to retaliate by imposing increased tariffs on its imports of agricultural goods from the EEC. Since there are already trade disputes simmering between the US, Japan and the EEC over other commodity groups, notably steel, textiles and cars, there is a significant risk that an agricultural trade war could spill over into a world trade war.

The Scottish Agricultural Wages Board met in June and proposed an increase of 4.75% in the minimum rate of pay for all full-time farm workers. This leaves the minimum rate for the general worker at only £93.45 per week, a very long way short of the TGWU target of £140 per week. In view of the parlous financial state of so many farmers at the present time, it is perhaps not surprising that the increase was such a modest one.

FISHING

The latest figures published by the Department of Agriculture and Fisheries for Scotland show that the value of fish landings in Scotland by UK vessels in the first five months of 1986 was £80.3m. The corresponding figure for 1985 was £80.5m. Landings of demersal species accounted for £63.2m with cod and haddock alone accounting for £16.7mm and £27mm. respectively. Bad weather is blamed for the 26% fall in the quantity of cod landings, but the effect of this on revenue has been offset by an average price increase of 25%. Conversely, haddock landings increased in value by 10% despite an average price fall of 17%.

The figures also reveal the growing importance of certain of the less common species. The markets in France and Spain for species such as monkfish, megrim, hake and ling have proved profitable for Scottish fishermen. Prices for such species have increased by as much as 200% over the past two years and the Scottish industry has been helped by the inability of the French and Spanish fleets to satisfy home demand. The accession of Spain to the EEC has also helped. In the first five months of 1986, the value of landings of the four aforementioned species totalled £6m or just under 10% of the total value of demersal landings. This compares with a figure of -5% for the 18 month period from January 1984 to August 1985.

Herring remains the most important of the pelargic species with landings of £3m in the first five months of 1986. This represents an increase of 28% despite an average price fall of 23%. Mackerel landings, however, had fallen by 39% to a value of £1.8m. Shellfish accounted for the remaining £12m, with Norway lobster (at £7.6m) by far the most important species.

It was announced recently that Efamol Holdings of Surrey and the Aberdeen firm HBP (By Products) Limited have formed a joint company, Calanish Limited, with plans to take over the Breasclete factory on Lewis to produce natural medicinal extract from fish oil. Fish oil, extracted from fresh fish by HBP at Stornaway, will be used to produce health products based on essential fatty acids. It is hoped that production will have begun by August 1987 and that the venture will provide over 40 jobs by 1990.

There have recently been calls for Government support for the fish processing industry in Aberdeen and the North East. Industry spokesmen argue that the difficulties faced by the sector are compounded by the lack of development area status in that part of the country. Indeed it is claimed that it is the only fish processing area in Europe bordering the North Sea where no national investment incentive is available. This is in contrast to the English ports of Grimsby, Fleetwood and Lowestoft where regional development grants are available.

Similarly, there have been calls for more research and development funds to be concentrated on the ever-growing fish farming industry. Of the current public budget of £2.2m spent on research and development on fish only part went on farm fish while salmon output alone is expected to reach £40m this year. With salmon farming growing at 60% per year and trout farming at 10% (and with now over 1,000 people directly employed in the industry), it is argued that more spending is urgently required on research into the behavioural needs of fish, and in particular on feeding patterns and health, if such growth is to be maintained.

Just how important salmon fishing is becoming for some rural communities is demonstrated by the announcement by Shetland Islands Council that the industry output could be as valuable by 1990 as the combined outputs of the local agriculture, knitwear and tourist industries. Its present annual output of £3.3m is expected to increase to £26m by 1990 and, moreover, employ as many as 500 people by the end of the century.

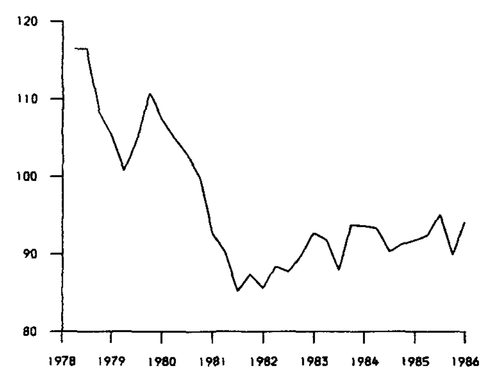
The continued success and expansion of the industry in Scotland will also depend critically on strong marketing schemes such as the Food from Britain foodmark scheme currently applied to Scotch salmon. The scheme involves inspection of premises and of the product at each stage of the production process in order to provide buyers with a dependable assurance of quality. Scottish salmon producers are convinced of the value of such schemes and believe their continuation and development is necessary if they are to enjoy continued expansion in what is becoming an increasingly competitive market.

CONSTRUCTION

The construction sector has a plethora of indicators of performance designed to shed light on the industry's past and future trends. Unfortunately, information on some of these indicators is released much later than for others, and on occasion this makes it difficult to detect the general underlying trend. Nevertheless, some pattern does seem to be evident from the latest data.

Figures from the Scottish Development Department for Scottish housing indicate that in 1985 there was an overall 2% fall in the number of new dwellings on which construction was begun. Interestingly, the public sector registered only a 1% fall over the corresponding period in 1984, an indicator somewhat at odds with information from other sources.

CONSTRUCTION OUTPUT



The index of construction for Scotland rose 1.2 points in 1985 to 92.9 (1980=100), although the usual heavy revision to the final quarter's figure may yet see a retrospective change in the overall position. Not all commentators agree, however, that 1985 did see a rise in construction output. The Building Materials Producers' index suggests that there was no rise at all in **contractors'** output during 1985, the only note of optimism being that architects' new commissions in Scotland in the final quarter of 1985 were more than double the figures for the corresponding quarter of 1984. Both the BMP and the Government are, however, in agreement that the UK as a whole is faring better than Scotland. On both indices UK output rose by 1.4 points in 1985 recovering to the position of 1980. Scotland shows no indication of such a recovery.

More up-to-date indicators give little cause for increased optimism. Sales through builders' merchants for the year to February 1986 fell by 12.3% in real terms in Scotland, with the UK recording a much more modest fall of 1.2%. Some relief is provided by the Department of the Environment's latest figures on new orders received by contractors in Scotland. For the first quarter of 1986 these stood at £359.54m, up by 7.3% on the previous quarter. What is perhaps of greater interest is the division of this activity between the public and private sectors. In total, the former shows a fall of 7% over the final quarter of 1985, standing at £150.58m, while the latter shows a rise of fully 20% to £508.90m. This continuing drift from the public to the private sectors is most marked in housing. At £11.53m, new public sector housing contracts are only half the total recorded in the last quarter of 1985, and this is the lowest quarterly total since 1980. By contrast, new private sector housing contracts rose by nearly 25% in the quarter to £78.22m, making the Scottish Development Department figures quoted above all the more surprising.

The rapid drop in public housing contracts stems, of course, from continuing Government spending restrictions. As well as local authorities, this affects housing associations. The Scottish Federation of Housing Federations has aimed at an annual completion programme of 7,000 houses, but in the year to March 1986 completions fell to only 2,491, the second successive drop. Without further finance for the Housing Corporation, the body which funds the associations, it is unlikely that this total will rise in the foreseeable future.

The immediate future is the concern of the most recent **Scottish Business Survey.** The **Survey** firmly indicates that the construction industry foresees a gloomy next quarter, with public sector contracts being particularly poor. Half the respondents indicated that new public sector contracts fell during the three months to June, with virtually none experiencing a rise. Most expect the present quarter to be no better and possibly worse. Even more worrying is that the improvement in private sector contracts is not expected to continue, with a quarter of respondents anticipating a fall in new private contracts this quarter, and just over 50% expecting no change. Nor surprisingly, the overall feeling is one of greater pessimism now that was the case three months ago.

ENERGY: OIL AND GAS

Movements in the price of crude oil have continued to be the primary focus of interest and attention in the oil and gas sector during recent months. Following the failure of successive OPEC meetings to obtain agreement on cutbacks of members' crude production, the general trend in prices has been downwards, with Brent reference crude selling at under $9 pb during July. Ironically, OPEC production actually increased significantly during the spring and summer to some 19.5 mbpd as certain member states attempted to sustain oil revenue in the face of falling prices.

To the surprise of most commentators, a July/August meeting of OPEC in Geneva produced an agreement that members would cut aggregate production by 3.5 mbpd for a two month trial period starting in September. If a sigificant part of this proposed cut in in fact realised, it will virtually eliminiate the present world crude surplus (variously estimated at 2-4 mbpd) and should stabilise prices. Indeed, immediate market reaction to the OPEC announcement led to oil prices increasing by $4-$5 pb.

In the context of an overall downward trend, the past quarter has been one of considerable volatility in oil prices, with large movements apparently triggered as much by rumour and speculation as by real changes in market conditions. For example, Brent crude dipped below $10 pb in April, rose to $15 pb, and fell back to around $9 pb in June before rebounding to $13 pb in the wake of the Geneva OPEC agreement.

North Sea oil output fell sharply in June to reach its lowest point for three years. The Royal Bank/Radio Scotland oil index fell 22 points to 133.6 (1980 = 100), equivalent to 2.2 mpbd of production. Combined with falling oil prices, the June daily value of North Sea production was £17 million, only one-third of the daily value realised in November 1985. The major reason for the decline in June output was the widespread implementation of maintenance programmes in producing fields. In fact, summer is the normal season for maintenance in the North Sea, but the extent and timing of recent activity will have been influenced at least in part by the oil price slump.

The possibility of lower oil prices being sustained over a period is causing increased concern over the prospects for the UK oil industry, both offshore and onshore. A recent study by the Scottish Development Agency suggested that, if oil prices remained at $15 pb, offshore expenditure over the next decade would be about 45% less than had been expected last year. This would lead to 5,000 offshore jobs being permanently lost. Indeed, adverse affects are already being felt with exploration and appraisal work at a three-year low. Some 40 rigs normally operating in the North Sea are presently lying idle in various UK ports. Supply boat activity is down by 20%. Fabrication yards are already short of orders, and industry experts are predicting that, in aggregate terms, yards will only be operating at 30% of capacity over the next eighteen months.

Offshore operators have recently been arguing that the Government could help to sustain activity by cutting oil-related taxes to partially compensate for the fall in oil prices. The oil companies favour a reduction in the rate of Petroleum Revenue Tax. However, this would be of little benefit to smaller independents and would actually reduce the tax incentive to proceed with new projects. The Government appear to favour making early repayment of Advanced Petroleum Revenue Tax, amounting to £800m gross, to ease the offshore industry's immediate cash flow problems.

Within Scotland, adverse effects associated with the decline in offshore activity are being experienced, especially in areas where oil-related activities are concentrated. For example, Grampian Regional Council estimates that 3,000 oil-related jobs have been lost in the Region during the past year and predicts that a further 2,000 jobs could be lost over the next twelve months. The problems facing oil-related firms in Grampian are clearly illustrated in the responses to the July **Scottish Business Survey.**

The majority of oil-related respondents experienced falls in output, orders and employment between April and June, with

Table 1 Short-term performance and prospects for oil-related business in Aberdeen area

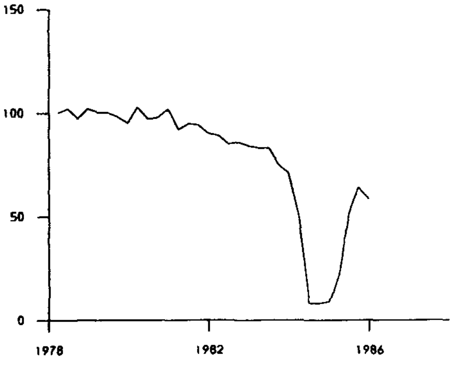
Response	Balance of respondents %
(a) Performance in 2nd quarter 1986	
General confidence	-62
Actual growth in oil/gas output	-19
Actual growth in supply/service orders for North Sea	-89
Actual growth in supply/service orders for export	-69
Actual trend in total employment	-70
(b) Prospects for 3rd quarter 1986	
Expectedgrowth in oil/gas output	-42
Expected growth in supply/service orders for North Sea	-86
Expected growth in supply/service orders for export	-68
Expected trend in total employment	-57

Source: Scottish Business Survey, July 1986, Fraser of Allander Institute supply/service companies being particularly badly affected (see Table 1). Furthermore, large balances of respondents expected these adverse trends to continue in the short-term at least. In view of these findings it is not surprising that sizeable majorities of respondents had lost confidence in general prospects for the industry and had made downward revisions to their investment intentions accordingly.

ENERGY: COAL, ELECTRICITY AND WATER

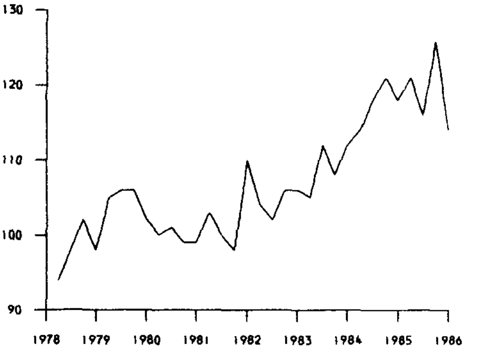
Surprisingly, the Scottish index of production for coal and coke recorded a 9% fall between the third and fourth quarters of 1985, moving from 64 to 58. At the same time the UK index maintained its recovery, despite pit and coal face closures, to stand at 82 in the fourth quarter. The Scottish index for other energy and water supply also fell by 9% (from 126 to 114) to finish the year at its lowest level since the first quarter of 1984. Its 1% increase on the year ie 1985 compared with 1984, is some way below the 4% increase recorded by the UK index.

COAL & COKE OUTPUT



Events since the start of 1986 have proved harrowing for those involved in the coal industry. The massive fall in oil prices has put severe downward pressure on other energy prices and resulted in the renegotiation of the price per tonne of coal supplied to the two major UK electricity boards, the CEGB and the SSEB. The new pricing agreement south of the border is expected to cost British Coal £300m in each of the financial years 1986-87 and 1987-88. No details were given of the pricing deal between the SSEB and British Coal. The major message from the Coal Board after these negotiations was that they were still determined to break even by end-1988, although they had originally hoped that this would be the case by end-1986. In order to do this they claimed that costs would have to be reduced at high-cost pits and contributions from lower-cost collieries would have to increase. This is bad news for the high cost Scottish coalfield.

OTHER ENERGY & WATER SUPPLY OUTPUT



The reduction in coal orders placed by the SSEB to 3.6m tonnes per annum (even though this excludes the highly volatile electricity exports to the CEGB amounting to the equivalent of around 1m tonnes of coal per annum) puts pressure on the Scottish Area of British Coal to speed up colliery closures and coal face rationalisation. Furthermore, the true spectre of British Coal's commercial strategy is waiting in the wings. The SSEB signs agreements with the Scottish Area of the Coal Board, but the latter is merely a regional unit of the national organisation, British Coal. The issue is then one of how long British Coal will allow high-cost Scottish coal to be supplied to the SSEB in place of potentially low-cost supplies from other areas. Moreover, this issue is compounded by British Coal's desire to achieve cost reductions through increased productivity. This implies that output per man shift and, hence, supply will increase.

Given that demand for coal is falling, or at best stagnating, the Board could then either stockpile low-cost supplies or close high-cost pits or areas. Its actions and pronouncements over the last year make the former option inconceivable. The fact remains that, although the SSEB thinks that its purchase agreement with British Coal fits with production forecasts for the Scottish Area, there is no reason for supplies to the SSEB to be of Scottish coal.

All the signs from the market (and from British Coal officials) are that high-cost **areas** are as much at risk as high cost pits. At the last count, only one Scottish pit or pit complex, Longannet, was close to the price per gigajoule needed by British Coal to break even. Before the oil price fall a short-term goal of £1.65 per gigajoule (equivalent to a price of £42 per tonne) was the target. For break-even now this cost is likely to have come much closer to the £1.50 per gigajoule originally set as a long-term aim. The Table shows the cost per gigajoule of production in Scotland's pits as at August 1985 (the most recent date for which data are available).

More worrying still is the fact that the overseas competitive price is around £1 per gigajoule, well below the figure for any Scottish pit. British Coal had assumed that in order to break even imports would remain at around 8m tonnes per year and exports would grow. However, an annualised import figure of over 11m tonnes for this year can be forecast from using trade data for the first five months of the year contained in the most recent **Energy Trends** (July 1986). Exports hold even more bleak news. On the basis of January to May trading a 1986 export total of just over 2m tonnes is likely. This is less than a third of the 1983 level and below that of 1984 and 1985, the years of the miners' strike.

In addition, developments in the nuclear power industry are set to replace coal capacity. The 1,400 Mw power station at Torness is expected to produce 15-20% of Scotland's electricity needs by 1989. Other AGR stations are set to come onstream in England by the same time. Moreover, the cross-Channel electricity link between the UK and France will be in full flow in the next two years. Determing how much this flow of cheap nuclear electricity will reduce the scope for Scottish exports of coal-fired electricity to the CEGB remains problematic.

Cost per gigajoule of Scottish deep mined coal (August 1985)

Pit	Cost (£)
Barony	2.28
Bilston Glen	1.57
Comrie	1.66
Killoch	2.01
Longannet Complex	1.35
Monktonhall	1.76
Seafield	3.29

Perhaps the most worrying factor of all is the news that British Coal Enterprises Ltd (the Coal Board's job creation wing for redundant miners) has plans for creating 10,000 job opportunities during the coming year and that Government assistance to it has been doubled. The fact that these jobs are just expected to keep pace with jobs lost and that Scotland is one of the three main areas to be helped does not augur well for the Scottish deep-mine industry's future.

While the outlook for deep-mined coal in Scotland is pessimistic it is much better for opencast production. A private company is to develop an opencast site in Tweeddale from which 20,000 tonnes of coal will be extracted over two years. In addition, a major opencast site at Coalburn in Lanarkshire is being negotiated. The 2,500 acre site, to be worked by British Coal, is expected to start production in 1989 and produce 500,000 tonnes of coal per year for 20 years. This output is expected to be the major supply source for the converted Kilroot power station in Northern Ireland.

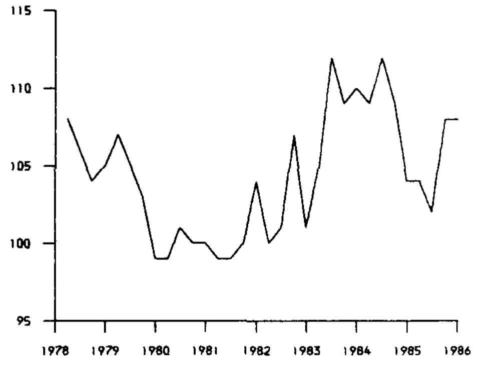
The SSEB and NSHEB reported surpluses for 1985-6 of £22m and £5.9m respectively. These returns were in contrast to the poor performance of the previous year when both Board's were badly hit by the effects of the miners' strike and had to burn expensive oil. As the commisioning of Torness nuclear power station draws near, the pressure on the SSEB to delay its start-up is mounting. The aftermath of Chernobyl and the threat to the future of the Scottish coalfield are the main thrust of the opposition. However, calls for the non-commissioning of Torness have been unco-ordinated. Some commentators, usually from the NUM or sympathetic organisations, have called for the conversion of the plant to coal. Others claim that a Chernobyl-like nuclear accident could best be avoided by not commissioning Torness. The pressures and criticisms facing the SSEB over nuclear power would be greatly multiplied, however, were the Torness complex not to go ahead. The SSEB will proceed with Torness because it is of the view that increases in tariffs are less acceptable to consumers and industrialists than the potential threat of nuclear fallout or job losses in coal mining.

In July the Energy Secretary, Peter Walker, supported the continued development of nuclear power. He dismissed renewable energy sources as only capable of producing a small proportion of future energy needs. This is hardly surprising given the weight of research and development resources devoted to conventional forms of energy production and advanced nuclear technologies. In 1982 the total IEA budget for R & D into renewables was only 15% of that for nuclear. However, a US Department of Energy report published in 1985 states that 80% of the US's energy requirements could be met from renewable sources. This contradiction suggests that more research and development resources than the Government's £17m for 1985 should be devoted to renewable (or 'clean') energy sources.

FOOD, DRINK AND TOBACCO

The index of industrial production for the food industry in Scotland stood at 108 for the fourth quarter of 1985 (1980 = 100). This represents either a three point rise or no change on the previous quarter, depending on which of the Industry Department for Scotland's revisions to the index one chooses to accept.

FOOD INDUSTRIES OUTPUT



For drink and tobacco output the index fell by a further point from 75 to 74, representing a slow but steady decline in output since the final quarter of 1985. While the food index is at roughly the same level as that for the UK food industry as a whole, the index of production for the Scottish drink and tobacco industries has fallen much more sharply than for the corresponding UK industries since 1980. This largely reflects the difficult times recently experienced by the Scotch whisky industry.

The June 1986 **Scottish Business Survey** does little to indicate optimism in the food, drink and tobacco sector. During the previous quarter over half the respondents indicated that they expected a rise in new orders during the quarter to June; in fact only 14% actually experienced an increase. Nor do present trends in overall sales and employment give any cause for optimism. More respondents reported a decline in sales than an increase during the three months to June, a trend reflected in the pattern of employment over the quarter. While four-fifths of respondents have not altered their investment plans since April, of those who have done so downward revisions outnumber upward revisions by a factor of 4:1. Unsurprisingly, lack of sales remains the largest single factor limiting output in the sector.

The major item of news in the food sector does nothing to relieve the generally gloomy atmosphere. Major restructuring of the Wall's and Matheson's meat products manufacturers (both subsidiaries of Unilever) resulted in the announcement that Lawson of Dyce is to cease production at the end of 1987 with the loss of 550 jobs. A further 1,300 job losses will occur in Wall's English plants, partly offset by 1,100 new jobs at a new factory in the Midlands and at a distribution centre in Manchester.

It would be tempting, but quite wrong, simply to attribute this closure to the "branch plant syndrome" which is supposed to be prevalent in Scotland. Unilever has owned Lawson's since 1965 and until Britain's entry into the EEC the Scottish company did very well out of its close association with Wall's. By 1970 employment had doubled to 1,300 at Dyce as the plant expanded rapidly. Lawson's problems spring not from English ownership but from a slump in the bacon market after 1973. Pig slaughtering ceased in 1979 with the loss of 600 jobs, and the plant's future has never looked very healthy following the collapse of an SDA-led consortium which sought to buy Lawson's from Unilever in the same year. Nevertheless, the complete closure of the plant will come as a severe blow to the North East where concern is already being expressed over job losses at the Donald Meat factory in Portlethen.

Developments in food retailing form the other dominant theme in this sector over the last three months. Probably the most significant of these in the long run is the sale of all 419 Fine Fare stores by Associated British Foods to the acquisition-intensive Dee Corporation for £680m. This move has a strong Scottish dimension; 89 of Fine Fare's stores and three distribution depots are located in Scotland, employing a total of 8,300 people. Dee Corporation has no existing outlets in Scotland, and no store closures are anticipated among Scottish Fine Fare stores which are expected to adopt the Carrefour name. The merger will push Dee into third place in UK grocery sales, behind Sainsbury and Tesco and ahead of Asda. What will happen to Fine Fare's ambitious plans for new store openings in Scotland remains to be seen.

After a decade of losses British Home Stores have finally decided to pull out of food retailing. While by no means unexpected, this move is bad news for Scotland. Five of BHS's Scottish stores have food departments, and 250 of the expected 2,000 redundancies will occur in Scotland.

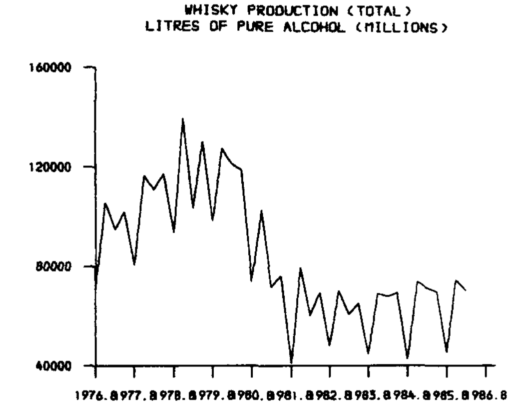
Any expatriate returning to Glasgow after several years absence might be struck not only by the extent to which the city is "miles better", but by the number of pizza parlors which appear to have sprung up in vacant shop sites. The Scots' appetite for such food appears to remain undiminished, however, and early in July Pizza Hut announced their intention to move into Scotland for the first time, planning 20 shops and 800 jobs by 1989. So confident are Pizza Hut that the market for pizzas is not saturated in Scotland that a distribution depot is to be set up in Renfrew, initially serving shops in Glasgow, Edinburgh and Aberdeen.

Two major companies with interests in food or drink announced year-end results during the last three months. Scottish and Newcastle's pre-tax profits rose 15% to just over £75m, despite the hotel division being affected by a lack of American visitors. If the memory of the Matthew Brown takeover saga still hurts, S & N are hiding the fact well. The brewing group retains a 29.6% shareholding in Brown, and a future takeover attempt has not been ruled out. This would, however, pale into insignificance if S & N make a move to become a major national brewing chain by attempting to acquire Courage, as has been speculated. In the year to March profits of Christian Salvesen rose 16% to £38.8m. Almost half of this came from the group's food distribution activities, nearly 20% of which goes to Marks and Spencer.

WHISKY

Total production of whisky in the first quarter of 1986 was 70.2m litres of pure alcohol (LPA), 1.4% down on the corresponding figure for 1985 but nevertheless a healthy total by recent standards. However, production of malt whisky was only 28.1m LPA, almost 9% down on the 1985 level and the lowest first quarter production total since the dark days of 1983.

News that exports rose 2% to 107.5m LPA in the first half of 1986 brought a mixed reaction from the Scotch Whisky Association. While obviously pleased at the first half-yearly rise since 1980, the Association was quick to warn that a much larger and sustained improvement in exports was required to set the industry on the right track once again. As has been the case for the last year, "cautious optimism" is the watchword.



Talk of production and exports appears to pale into insignificance in comparison with developments in the embryonic Guinness/DCL boardroom. The inevitable emergence of Ernest Saunders in an enlarged Chief Executive's role saw Sir Thomas Risk become one of that rarest of breeds; men sacked before they took office. Arguments as to whether the two-tier board structure would have worked and whether Sir Thomas would have protected "Scottish interests" are now rendered redundant. There are, however, two related but conceptually distinct issues raised by recent events. The first is whether a bidding company should be able to make commitments, presumably with the intention of influencing the shareholders of the proposed merger partner, and then renege on these commitments with impunity following acquisition, (see Economic Perspective 2).

The other issue relates to the benefits of, and rationale behind, the proposal to locate the merged group's headquarters 8 in Scotland. Two arguments are generally employed to suggest that the location of control is unimportant in this instance. First, Scotch whisky has to be produced in Scotland, and it is therefore argued that this legal requirement is the best possible safeguard of jobs in, and a commitment to, Scotland. Secondly, the drinks industry is international and it is the intention of Guinness to create an internationally competitive company capable of holding its own with giants such as Seagram, Hiram Walker and Suntory. On this argument the location of control is irrelevant; what is good for Guinness is also good for Scotland, and the success of one ensures the success of the other.

Both of these arguments are flawed. Scotch whisky does, of course, require to be distilled in Scotland; but it need not be blended or bottled here. More people are employed in blending, bottling and administration than in distilling, which makes policy decisions on issues such as bulk exports and brand marketing of great importance to Scotland. To suggest that we should be unconcerned about where and by whom these decisions are made is a nonsense.

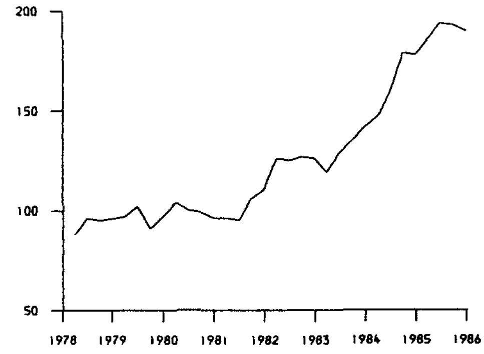
The second argument has more merit, but is not entirely convincing. A vibrant and competitive DCL would undoubtedly be good for Scotland, even more so if its head office functions were located here. Quite apart from the issue of where major investment and other financial decisions are made, the fact remains that major companies attract a whole host of professional and ancillary services around their head office functions. While it is undoubtedly true that many professional services such as accountancy and banking are themselves becoming increasingly internationalised, the fact remains that a substantial proportion of these services tend to be provided from within the local economy, and are important to its long-run growth and development. Couple this with the obvious multiplier effects of the location of a major head office, as shown by the Fraser of Allander Institute's study of Britoil's impact on Scotland, and you have several powerful reasons why the location of the Guinness/DCL corporate office is of interest to Scotland.

The side show of Guinness's proposed re-registration as a Scottish company is a complete irrelevance. The location of ultimate control **does** matter; flags of convenience do not.

ELECTRICAL AND INSTRUMENT ENGINEERING

A fall of 1% was recorded in the index of industrial production for Scotland between the third and fourth quarters of 1985 bringing the index to 190. This fall continued to reflect the troubles in the industry which emerged in the index for the third quarter. However, an increase of 15% in the index was recorded in 1985 over 1984, a much higher rate of growth than that recorded for the UK as a whole (6%). Indeed, the UK index lags well behind its Scottish counterpart at 130, a figure that has changed little since the last quarter of 1984.

ELECTRICAL & INSTRUMENT ENGINEERING OUTPUT



The optimism displayed by industry respondents to the April **Scottish Business Survey** was not maintained in July. The net 15% who claimed to be more optimistic about the general business situation then has turned around to a net 16% who are less optimistic. New orders increased for 33% of respondents and fell for only 14% over the last three months, but over the next three months those expecting a downward trend rises to 23% with 34% expecting it to remain upward. Capacity utilisatio, at 63%, was slightly down from the level recorded in the last **Survey.** However, most worrying of all is the expected trend in employment: a net 10% of respondents expect their total employment to fall over the next three months.

The summer months have proved fairly quiet in the electronics sector. Most interest has centred around the price and production agreement in the semiconductor industry currently being negotiated between the Japanese and US Governments. The threat of protectionist policies being imposed against Japanese chip producers seems likely to be withdrawn as the various parties reach agreement. In effect, this agreement will guarantee American manufacturers two things. First, that imported chips from Japan will not be "unfairly priced", ie dumped, on the US market. The Japanese Government's Ministry of International Trade and Industry (MITI) will supply the US Trade Department with production cost information to ensure that this is the case. Secondly, US firms will be treated in a privileged way as they attempt to take a 20% share of the $9bn Japanese semiconductor market. This agreement will not apply to markets in the rest of the world, much to the dismay of American chip producers, and this has led to fears that an acceleration in the movement of US computer and systems manufacturers to site production facilities outside the US could be in the offing.

In Scotland, a 20% jobs cut by Apricot computers of Glenrothes was announced, bringing the workforce down to 200. This followed the announcement of a £15.4m loss in 1985, but the firm expects to return to profit in 1986 as it rationalises its operations. Employment levels at the firm have gone from 1,250 throughout its entire production and selling network to just 650.

Profits are down at Ferranti. Slackness in defence contracts in the UK and Saudi Arabia, both partly brought on by the oil price collapse, and trading problems in the firm's semiconductor business have been the main contributors to the poorer than expected performance. Another company involved in military markets, Allivane International, is to set up a manufacturing facility in Cumbernauld with the creation of around 150 jobs over the next two years. The firm is London-based and supplies electronic and mechanical components for artillery shell fuses.

Finally, in June, a £2.25m artificial intelligence laboratory was opened at Edinburgh University. The laboratory, expected to enhance Edinburgh's reputation as a world leader in the development of fifth generation computers, is to be financed by both private industry (60%) and the Government (40%).

TRANSPORT EQUIPMENT

The last three months have seen the much needed orders for two Type 23 frigates secured by Yarrows. The announcement of the £240m contract by the Ministry of Defence will secure the future of 4,250 jobs at the yard. Furthermore, it will guarantee the building of a new £10m assembly hall which will cut production time on warships by 12 months and manpower costs by 20%. These savings will go a long way to making Yarrows competitive in export markets and also to ensuring that it gets future orders for Type 23s.

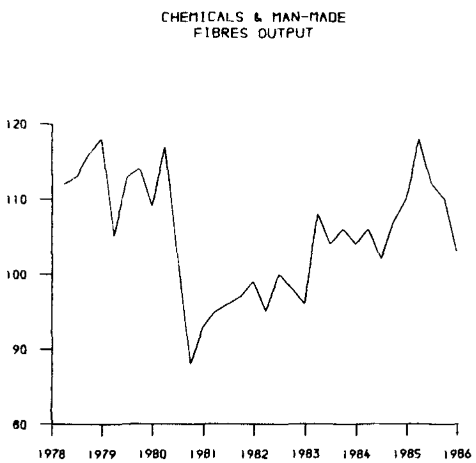
The outlook for the other shipbuilding concerns around Scotland is mixed. Despite a consultants' report suggesting that it would cost the Government four times as much to close the Ailsa yard at Troon as to keep it open, there is little prospect that British Shipbuilders will reconsider its decision, especially in the light of the £137m loss which it recorded last year. In addition, 495 men at Govan are to be made redundant. Hopes for a second £40m ferry order for the yard are high - a decision will be made in the next month or so - and this would result in work for the yard until 1989. However, the redundancies look set to go ahead as BS attempts to cut capacity.

Scott Lithgow has apparently been unsuccessful in its bid to carry out refitting work on ACL's **Atlantic Conveyor.** Its price was far higher than that submitted by heavily subsidised Far Eastern yards and this outcome looks set to produce major job losses in the near future. The yard has now launched the infamous Britoil rig and has only £10m worth of Royal Navy work left on the stocks.

Aberdeen Shipbuilders is also struggling. Current contracts run out in September leaving only work on an offshore conversion. New orders are badly needed here.

Overall, the UK shipbuilding industry remains firmly in the doldrums. Elsewhere, Japan has recently announced a major rationalisation programme, involving a 20% capacity cut, but supported by large-scale assistance in the form of state subsidies. A leaner, fitter and more modern Japanese industry is just what BS could do without as its rationalisation plans are aimed at capacity cutbacks not reinvestment and restructuring.

CHEMICALS AND MAN-MADE FIBRES



The latest figures for the index of industrial production show that output in the chemicals and mad-made fibres industries in Scotland fell by 6% over the final quarter of 1985. The index now stands at 103 (1980=100) which represents a fall of 15 points since the beginning of 1985. However, in the four quarters to December 1985, output improved by 5% over the corresponding four quarters a year earlier. The comparable figure for the UK as a whole was an increase of 4.4% whilst worldwide output of chemicals rose by only 3.5%.

Preliminary statistics for the UK indicate that the downward trend evident in the second half of 1985, and mirrored in Scotland, has continued into 1986. Amongst the worst hit sectors has been agricultural chemicals where poor weather and the financial crisis in world agriculture have been major contributory factors. For example, in the first quarter of 1986 volume sales of fertiliser and pesticides by the UK were down 13.1% and 8% respectively on the previous year. More surprisingly, the oil price has brought considerable cost benefits in the beginning of the year - the price index for materials and fuel in the first quarter was over 13% lower than for a year earlier.

The results of the July **Scottish Business Survey** indicate that a balance of 41% of respondents are less optimistic about the general business situation in their industry than they were three months ago. This is in spite of an expected increase in new orders and sales, particularly in export markets. Nevertheless, orders or sales remain the dominant inhibiting factors on output and utilisation is reported to be well below capacity. The downward trend in employment experienced over the last three months is likely to continue with a balance of 21% of respondents expecting a fall in total employment. However, there is little or no indication of recent revisions of investment intentions.

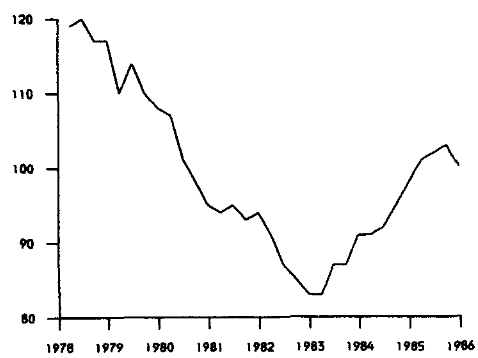
Although ICI reported a £63 million fall in pre-tax profits for the first half of 1986 (from £535m to £472m) much of the disappointing first quarter performance (reported in the last **Commentary**) has been reversed. For instance, profits in the second quarter improved by £64m to £268m to equal the best level achieved in the previous year. This turnaround was attributed to the seasonal rise in sales and to lower raw material costs feeding through to profit margins. Overall, ICI have been constrained by the generally flat industrial performance in most developed countries and the failure, as yet, of the sharp decline in oil prices to feed through to economic growth.

Elsewhere there was speculation that as many as 150 of the 1,500 workforce at the ICI explosives factor at Ardeer may be made redundant in the near future. Nobel, who run the plant, are seeking significant savings. Matters have not been helped by a dramatic decline in demand for commercial explosives as a result of the deep recession in the UK and overseas mining industries.

TEXTILES, CLOTHING, LEATHER AND FOOTWEAR

Following eight successive increases, the index of industrial production fell in the fourth quarter of 1985 from 103 to 100, the lowest point for a year. Compared to the fourth quarter of 1984 the index stands some 2% higher. This is similar to the fourth quarter result for the UK as a whole (although the magnitude of the fall is greater in Scotland) and preliminary figures for the first quarter of 1986 indicate a further slight fall in output.

TEXTILES, LEATHER, CLOTHING & FOOTWEAR OUTPUT



Previous **Commentaries** have noted that the index for this sector is generally a reliable indicator of the volume of production in the industry and, is thus, subject to little revision from quarter to quarter. It is somewhat surprising, therefore, that the figure for the third quarter of 1985 has been reduced by seven points to 103, the largest revision of any sector. The new figure appears to be more plausible than the old, being only slightly above the average index number for the year.

Based on returns from member firms in the areas covered by the Glasgow, Edinburgh, Dundee and Aberdeen Chambers of Commerce, the **Scottish Business Survey** provides an indication of trends in much of the sector although it does not cover the quality knitwear manufacturers and Borders woollen textile firms. The latest SBS published in July suggests a general decrease in optimism since April with more than three times as many firms now reporting a decrease in optimism as reporting an increase (see Table 1). This falling optimism is reflected in the trend in sales over the last three months. Whereas there were more respondents reporting sales increases than decreases in the quarter ending in March, the balance changed in the second quarter and twice as many firms reported a fall in sales as reported a rise (see Table 2).

Table 1 Excluding seasonal factors, are you more or less optimistic about the general business situation in your industry than you were three months ago? (%)

	More	Same	Less
April	21	38	41
July	14	38	48

Table 2 Excluding seasonal factors, what is the trend in the total volume of sales? (Last three months) (%)

	Up	Down	Flat
April	37	25	38
July	24	47	29

As would be expected, the decline in optimism and sales has had an adverse effect on employment in the sector with 47% of firms reporting a fall in total employment and only 20% claiming a rise.

As anticipated in previous **Commentaries**, agreement has now been reached on a final draft of the Multi Fibre Arrangement (MFA). Although the draft of the new seven year agreement now requires only the signatures of the participating nations, both China and India have expressed strong reservations about its terms. In particular, these countries are concerned about the extension of the MFA to cover all natural fibres (with the exception of pure silk), a change in the pact introduced under pressure from the United States. American insistence on the incorporation of natural fibres is a response to substantial increases in imports over the last two years. However, these clauses may lead to both China and India formally dissociating themselves from the MFA.

The new MFA permits greater flexibility in concluding bilateral agreements than was the case in the past. The EEC has already taken advantage of this provision and deals have already ben struck with 17 developing countries and more are expected. EEC policy is to negotiate more generous agreements with less developed countries while maintaining a firm stance and seeking more restrictive pacts with larger clothing producers. This has led to problems in talks with two of the major Asian exporters, South Korea and Hong Kong, while India has not even set a date for talks.

2,500 workers represented by the TGWU and the GMBATU in 34 firms across Scotland have voted to accept a 5.25% wage increase. Although the unions had sought a rise of 10%, the management negotiators claim that the settlement is generous in view of the difficulties facing many firms. In the Borders, GMBATU has concluded negotiations with fourteen members of the Hawick Knitwear Manufacturers Association which will give 2,000 employees a rise of 3.75% in the basic wage from 1 September. Negotiating separately, Pringle and GMBATU agreed on a sixteen month deal which gives workers a 5% rise, also from 1 September. This is the first time in many years that bargaining has been completed before the trades holiday and also the first time in three years that industrial action has not been necessary. It is thought that the low rate of inflation and in particular the uncertainty surrounding the industry combined to produce an early settlement at a low figure.

The problems facing the Borders knitwear industry were emphasised in mid-August with the announcement by Lyle and Scott of the closure of their factory at Burghview, Jedburgh and the introduction of short-term working at the Hawick and Kelso plants. In total, 15 redundancies are planned.

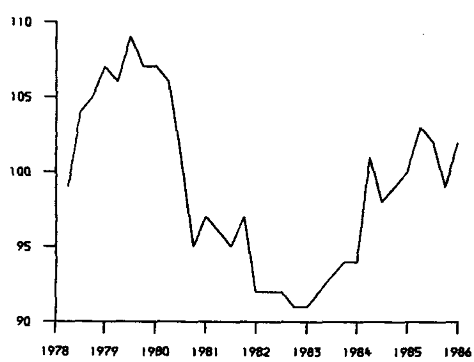
The Larkhall-based clothing group Daks-Simpson announced a 23% increase in pre-tax profits for the six months to January. Following the closure of its Devon operation in the early autumn with the loss of 120 jobs, it is expected that there will be a transfer of production to the Scottish plants at Larkhall and Polbeth, West Lothian, although it is not yet clear how many jobs will be created.

Early indications are that mill shops are experiencing a significant fall in turnover as a result of the reduction in tourist numbers, particularly Americans, following the US raid on Libya and the Chernobyl disaster. Typically US tourists are brought to the mill shops as part of a coach tour and many industry spokes-people have expressed concern at the decline in this business.

PAPER, PRINTING AND PUBLISHING

The lastest index of industrial production shows that output in the paper, printing and publishing industries in Scotland rose by just over 3% in the last quarter of 1985. In addition, in the four quarters to December 1985, as compared to the four quarters a year previously, output grew by 3%. This is an identical figure to that for the UK as a whole but the Scottish industry has managed to regain marginally more of the ground lost since the recessionary trough.

PAPER, PRINTING & PUBLISHING OUTPUT



The July **Scottish Business Survey** reports that a balance of 12% of respondents in the paper, printing and publishing sector are less optimistic about the general business situation than they were 3 months ago. In the categories, of expected trends in new orders and volume of sales over the next three months, a small balance of 2% and 4% of respondents respectively expects a downward trend with much of this fall attributable to a decline in new orders and sales from within Scotland. Utilisation remains significantly below capacity and there seems little immediate prospect of any recovery in employment in the industry. As in many other sectors of Scottish manufacturing, deficient demand is reported as the major constraint on output.

There are indications that negotiations are underway at a number of Scottish daily newspapers over the introduction of advanced printing equipment. This is likely to involve a move towards implementing single keystroking. However, agreement on such a development is unlikely to occur in the near future. This development is in line with recent trends in the newspaper industry in the UK as a whole and would inevitably involve some job losses and redeployment.

Further news of investment in new technology in the printing industry came with the announcement of a major expansion by Waddies and Company Ltd of Edinburgh. They have recently signed a £2m contract for the instalation of a five unit, eight page Heidleberg heat set web press. This will be the first of its kind in Scotland and it is hoped that the improved facilities for colour printing that it offers will help to regain much of the work of this type that has been lost to English printing firms. The expansion may lead to the opening of a new plant at Livingston and add as many as 30 new jobs to Waddie's current workforce of 276.

DRG Lairds Packaging Ltd, who are currently based in Glasgow, are in the process of moving to a new plant in East Kilbride. The move involves substantial new investment and is expected to be completed by the end of August 1986. As a result, the old Carstairs Street plant will close but any job losses will be voluntary and presumably compensated for by a build up of employment at the new premises.

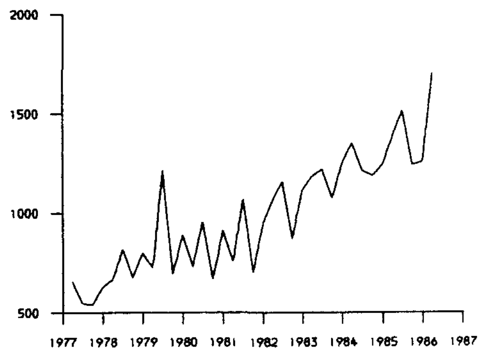
It was recently confirmed that the Edinburgh-based book printing and binding firm, Clark Constable (1982) Ltd, are to close with the loss of 73 jobs. The firm had invested in certain forms of new technology but nevertheless was unable to secure an adequate return. This sector of the printing market is highly competitive and the conditions faced by the remaining Scottish firms are not helped by being in direct competition with the heavily subsidised printing enterprises of the Eastern Block.

Since the last **Commentary**, agreement on wages and conditions between the Society of Master Printers of Scotland, the trade association, and the print unions SOGAT and the NGA, has been balloted on and accepted by the membership. The agreement allows for a 6.1% increase on base rates which is equivalent to an average weekly increase of around £7.00.

COMPANY FORMATIONS AND DISSOLUTIONS

There is no diminishing in the enthusiasm for forming new companies in Scotland. A total of 1,703 companies were formed in the quarter to June, the highest quarterly total ever recorded, and 12% above the corresponding quarter in 1985 (which was the previous highest total).

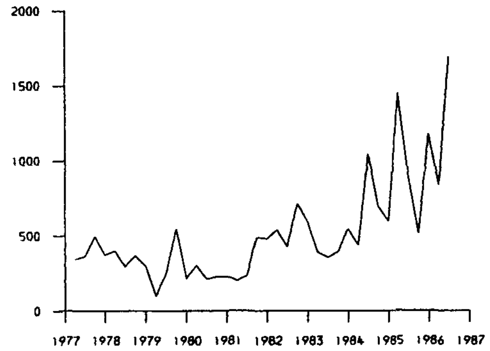
TOTAL COMPANY FORMATIONS
IN SCOTLAND



At 1,694 dissolutions also hit an all-time high, more than double the number of last quarter and 17% higher than the previous quarter's figure. The see-saw pattern of dissolutions should not be taken as any indicator of business confidence for reasons stated at some length in previous **Commentaries**.

To put these figures into perspective, it may be noted that Companies Registration Office registered 2,527 dissolutions in the first half of 1986, Dun & Bradstreet

TOTAL COMPANY DISSOLUTIONS
IN SCOTLAND



recorded only 312 business failures in Scotland during the same period, a level almost unchanged since 1985. The latter figure seems more likely to represent the "true" level of liquidations.

The Service Sector

FINANCIAL SERVICES

Changes in financial markets continue apace. Earlier this month the DTI released its proposals on the Regulation of Authorised Unit Trust Schemes, a result of the first comprehensive review of the industry for forty years. The main thrust of the proposals is to extent the scope and operation of unit trusts allowing wider investment opportunities and the creation of specialised unit trusts offering money market, property, commodity and mixed fund investments. Money market funds, for example, will allow small investors access to money markets. Managers will be able to invest in Treasury bills, short-term bank deposits, certificates of deposit and short-term corporate bonds although restrictions are proposed on non-transferrable instruments and the managers wil not be allowed to operate the trusts as a form of deposit account. The emphasis of the proposals is on expanding the set of acceptable unit trust investment opportunities.

It is also proposed to allow direct investment in property, commodity futures, option contracts and financial futures although a variety of safeguards are suggested, notably minimum levels of liquidity and a restriction on the more specialised aspects of property investment.

Widening the set of acceptable investments should improve the efficiency of financial markets. If unit trusts are perceived as just another investment vehicle then it does not make sense to artificially restrict their investment choice. However, a case can be made for a much more restricted liberalisation than that currently proposed.

The effect of increasing the set of acceptable investments open to unit trusts is also to increase the risk possibilities of the trusts. Investment in options, for example, will allow the construction of investment position with **unlimited** oportunities for **profit** and **loss.** Up to the present, the benefits of diversification combined with limited opportunities for assuming very risky investment positions, have mitigated the consequences of even the poorest of investment selection. A unit trust's performance may be poor but it is unlikely to be disastrous. The incorporation of options and futures into the set of acceptable investments will increase the possibilities of both profit and loss. It will be conceivable for the fund to decline in value to zero. Such a possibility is not necessarily bad. High reward requires high risk. The risk of total loss is acceptable provided there is the prospect of high returns. The difficulty arises from the nature of the authorised unit trust market.

Unit trusts have in the past provided relatively safe investments for the less sophisticated, smaller investors. For such investors options and futures are unlikely to be suitable. Of course, the proposals do not suggest that every trust should avail itself of these facilities, but it is inevitable that some investors will be persuaded into trusts which invest in areas of the market the investors do not understand and which are unsuitable for their requirements. On past experience commodity funds making very large returns in a short period will advertise heavily with a consequent huge increase in sales and the possibility of disastrous consequences for some naive investors in the market. Greed and ignorance make a powerful combination that will ignore any number of warnings and cautions!

The question at issue is whether it is really desirable that unit trusts should develop as just another portfolio investment vehicle. The existing DTI restrictions have, in effect, restricted authorised unit trusts to safe investments and made them eminently suitable vehicles for unsophisticated small investors. The proposed changes put the trusts on a more equal footing to other investment vehicles but at the same time make them less suitable for the unsophisticated investor. There is much to be said for the suggestion that unit trusts should be retained as a safe portfolio investment medium and that other investment vehicles should be developed for investors wishing to exploit more complex investment combinations. At the heart of the matter is one's view of the role of regulation. Should regulation be aiming simply to prevent fraud and mismanagement or should it be aimed, as well, at protecting individuals from their own greed? There is a place for an investment vehicle that aims to achieve the latter objective even though the prevailing presumption is in favour of the former view of regulation. Traditionally, authorised unit trusts have provided an investment vehicle with strictly limited risk characteristics. The proposed liberalisation in the set of investments open to unit trusts may reduce the effectiveness of unit trusts in this socially useful role.

Scotland's involvement in the unit trust industry has had a chequered career. Until a decade ago Edinburgh was well represented in the UK industry but its strength depended on Ivory and Sime's participation in Save and Prosper and on Ivory and Sime's withdrawal from that agreement Scottish involvement in unit trusts was negligible. Recently, changes in the life assurance industry, brought about by changes in tax relief and commission agreements, have brought the life companies into the unit trust market in a major way so that the proposed changes are of direct importance for the Scottish financial community. Scotland is also a major participant in the investment trust market with some 35% of the UK industry managed from Scotland. Investment trusts have traditionally been a major competitor to unit trusts, their appeal being based on both their ability to invest in a wider range of investments than unit trusts and to gear. These advantages will disappear under the new proposals since unit trusts wil be allowed wider investment powers and are to be allowed the right to borrow up to 10% of the value of the fund. Investment trusts will inevitably face increased competition adding to the pressures that have assailled the industry in the past twenty years.

Neither are the propsed changes all good news for existing Scottish unit trust managers. Many of the existing Scottish funds managed by independent fund managers are small and may be affected, particularly in the event of a substantial market decline, since the proposals recommend that unit trusts below a minimum size of £1, or £2m for property or mixed funds, should be terminated since it is argued that small funds are unlikely to obtain the benefit of professional management. Believers in efficient markets, or indeed analysts of performance statistics, may well feel that the absence of professional management is of little consequence or even beneficial since its presence may result in an excessive churning of funds.

There must also be reservations over the abilities of Scottish fund managers to take effective advantage of the wider investment opportunities open to them. With a few notable exceptions the Scottish fund managers have not been active players in the newer financial markets and may lack the skills to employ to advantage within their portfolios assets such as options and futures. The persistent drain of personnel from Scotland to London in the recent past has done nothing to ease this problem.

If implemented, the DTI proposals will involve major changes in the unit trust market. These changes are not necessarily all for the benefit of the consumer as the deregulation of unit trust charges in 1979 so graphically illustrated. On that occasion the industry almost uniformly increased, in many cased doubled, its charges without any perceptible improvement in the performance of unit trusts versus other investment vehicles. The charges simply increased the profits to the managers. The new proposals increase the risk of naive, unsophisticated investors buying unsuitable investments. The changes are unlikely to be in Scotland's favour, at least in the short term. Investment trusts will become relatively less unlikely to be in Scotland's favour, at least in the short term. Investment trusts will become relatively less attractive. Many Scottish fund managers missed out on the growth of the unit trust market in the last decade and there must be doubts about the ability of Scottish investment managers to cash in on the new opportunities open to them.

DISTRIBUTIVE TRADES

The most recent FT/CBI survey of distributive trades indicates that in the UK as a whole wholesale sales grew only slowly during the **Spring** and wholesalers were reported to be disappointed with sales performance for the time of year. The July **Scottish Business Survey** (SBS) suggests that the spring performance of Scottish wholesalers may even have been slightly poorer than in the rest of the UK. A balance of 10% of SBS wholesale respondents reported that sales had actually fallen in the second quarter and only a net 2% expected sales growth between July and September.

Employment in Scottish wholesaling continued to fall in the second quarter. However, in contrast with previous SBS findings, declines in both full-time and part-time employment were recorded. A net 5% of wholesale respondents expected further job losses in the third quarter.

For the fourth successive period wholesalers in the Glasgow Chamber of Commerce area reported a significantly better second quarter sales performance than those in other areas (see Table 1). Glasgow wholesalers also recorded net increases in employment. In the circumstances, it is not surprising that Glasgow wholesalers were confident and optimistic about future trends in sales and employment. In contrast, Aberdeen area wholesalers had a relatively poor second quarter and clearly were pessimistic concerning short-term prospects. As noted in the last **Commentary,** wholesale performance in the Aberdeen area is certainly being adversely affected by actual (and feared) declines in oil-related activities in the North East.

According to the FT/CBI survey, UK retailers experienced improved sales growth in May after a 'disappointing' spring. A balance of +52% of respondents expected further increases in sales in June. However, Department of Industry statistics give a rather different picture, suggesting that UK retail sales grew more slowly in May after record sales in March and good sales in April. The latest SBS (which covers the period April-June) indicates that Scottish retailers had a good, but not exceptional, second quarter in sales terms, with a net balance of 21% of respondents reporting sales increases. This is lower than the net 51% who reported first quarter sales growth and also lower than the net 30% who had expected sales to increase in the second quarter. However, although on balance the sales record between April and June may not have quite lived up to expectations, 63% of SBS retail respondents predicted that sales would grow in the third quarter while only 21% expected a decline.

Table 1 Geographical response to July 1986 Scottish Business Survey: Wholesaling

		Balance of respondents in: G %	E %	D %	A %
Overall confidence	UP	+42	-18	-17	-53
Actual sales	UP	+55	- 9	-61	-25
Expected sales	UP	+52	+50	0	-45
Actual employment	UP	+38	-44	- 2	-33
Expected employment	UP	+44	+ 2	0	-44
Investment intentions	UP	+23	- 9	0	+ 1

Key: G = Glasgow, E = Edinburgh, D = Dundee, A = Aberdeen

Contrary to previous SBS findings, the July Survey found that total employment in

Scottish retailing fell between April and June. A balance of 27% of respondents reported cuts in full-time employment, while a decline in part-time employment was noted by a net 2% of firms. Disturbingly, a balance of 25% of retailers predicted further employment reductions between July and September this year.

Glasgow retailers had a particularly good sales performance for the second successive quarter (see Table 2). However, whereas between January and March employment and sales rose together, employment has fallen more recently despite continuing sales growth. For the third quarterly period in a row, a balance of Edinburgh retailers reported actual declines in sales. Dundee retailers had a modest second quarter sales record compared with Glasgow, but were notably optimistic about short-term prospects. Retail employment in Aberdeen fell sharply between April and June and this trend is expected to continue. The fall in Aberdeen retailers' confidence is, as in wholesaling, caused at least in part by concerns over the future of oil-related activities in the area.

Table 2 Geographical response to July 1986 Scottish Business Survey: retailing

		Balance of respondents in:			
		G %	**E** %	**D** %	**A** %
Overall confidence	UP	+ 7	+ 5	+51	-51
Actual sales	UP	+55	-13	+ 8	+ 4
Expected sales	UP	+55	+12	+79	+16
Actual employment	UP	-35	-15	+ 9	-52
Expected employment	UP	-18	-15	+29	-71
Investment intentions	UP	+23	+17	+20	-20

Key: G = Glasgow, E = Edinburgh
D = Dundee, A = Aberdeen

TOURISM

Unlike some other countries which have experienced steady growth in their tourist industries over the past decade, the trend in tourist numbers and revenue in Scotland have been disappointing. The industry here is to a large extent dependent on volatile British and overseas markets. Last year was a case in point. Low temperatures coupled with high rainfall during the summer produced an overall downturn in numbers and spend. Analysis of the volume and value statistics for 1985 contained in the latest Scottish Tourist Board (STB) annual report (Scottish Tourist Board, **17th Annual Report 1985-86: Marketing for growth through quality**, Edinburgh, the Board, 1986) reveal a 3% drop in numbers, with total tourist spending falling from £1.5 billion to £1.4 billion. Occupancy rates at touring caravan and camping sites were down on 1984 in the peak months of July and August by 9% and 19% respectively. Expectations of growth, which STB had itself done much to fuel, have therefore not been met. Moreover, there are few grounds for optimism about the current year.

STB's annual report for 1985/86 refers to "concerns about international terrorism and the knock-on-effect of a wet 1985". Hotel occupancy statistics for April of this year record a 19% drop in bedspace utilisation over 1985. The events surrounding the Commonwealth Games - back in February the positive and extensive publicity spin-off was seen as something which would help offset any terrorist-related drop in American tourist bookings - and another poorish summer make for a gloomy picture.

The message of hope contained in the STB's 1985/86 report is that "the medium term prospects for Scottish tourism have never been brighter". The Board points to the likelihood of lower air fares, to the "sharply rising quality" of Scotland's tourism products, and to its new domestic marketing drive aimed at attracting new first-time visitors from amongst an estimated 12 million UK residents who have never been to Scotland. To an extent each of these factors is valid. Reduced air fares may well provide the industry with a boost. The Board has laboured hard over the years to improve standards through its section 4 financial assistance programmes, and last year launched a voluntary accommodation grading scheme. The "Surprising Scotland" publicity campaign is diffusing information about Scotland as a tourist destination, and is doubtless attracting some new visitors. But the idea that the future is a rosy one ought to be dispelled as these factors do not in themselves provide a recipe for sustained growth.

Lower air fares will also benefit Scotland's competitors. The grading system has a long way to go before it matches the efficiency of the many well established compulsory schemes to be found on the Continent. Most significantly of all, the smallness of size which characterises the commercial units trading in Scottish tourism, and which serves to inhibit extensive marketing and development programmes, also characterises the STB's promotional and investment spend. The Board's total budget for 1985/86 was £10.4m. Its direct expenditure on marketing and development was £5m and £3m respectively. By comparison, it is striking that Ireland's state tourism agency (Board Failtes) received a 1984-85 budget of £IR27.5m (equivalent to about £23m) despite the country being poorer and having a much lower resident base and tourist influx.

The STB's annual report makes little reference to the depressing symptons of under-investment and lack of finance which are strikingly evident throughout major sectors of Scotland's tourism industry. Examples are the 50% of Scottish hotels which lack private bathrooms, the ten area tourist boards with annual budgets of less than £100,000, the small STB overseas promotional expenditure of £273,000, and the generally disappointing response of private enterprise to the challenge of investing in large-scale visitor attractions in Scotland. There is pronounced seasonality and there is, of course, the weather.

"Marketing for growth through quality is the theme of the STB's latest annual report. The slogan is attractive but at present it is the impediments to growth which loom ever larger and suggest that growth in the medium term will only come about as a result of new initiatives accompanied by a major infusion of public and private resources.

The Labour Market

Individuals in the labour market are characterised by membership of any one of three states: employment, non-participation and unemployment. Recent Scottish data relating to the stock of individuals in each category are reviewed below as are selected data on the flows between alternative labour market states.

1. Employment: stocks and flows

Table 1 summarises recent employment levels in Scotland. On an unadjusted basis total employment fell in Scotland by 27,000 in the last three months of 1985. The fall in total employment was also reflected in the seasonally adjusted data presented in Table 2. The seasonally adjusted decline of 5,000 in total employment over the quarter to December 1985 occurred despite an increase in adjusted service sector employment of 4,000. The balance reflected declines in employment in production and construction industries (notably in manufacturing) and in agriculture, forestry and fishing.

Over the year to December 1985 actual employment rose by around 6,000. However, over the same period male employment actually fell by 5,000. Whilst total female employment rose by 11,000, part-time female employment rose by 16,000 so that full-time female employment fell by around 5,000. Consequently, even if part-time jobs are weighted as high as half of a full-time job, full-time equivalent employment fell during 1985. Claims of increases in employment are based on a simple head-count of numbers employed - a procedure which implicitly values a part-time job as equivalent to a full-time one.

As compared to the last cyclical peak in activity in 1979 male employment is now some 150,000 lower, full-time female employment is much the same, but part-time female employment is about 80,000 higher.

Table 1 Employees in employment in Scotland (000s)

			Female				Prod.&	
		Male	All	Part-time	Total	Manuf. (2-4)	Const. (1-5)	Services (6-9)
1979	June	1205	897	332	2107	606	837	1222
1983	June	1070	851	361	1921	447	647	1231
1984	Sept	1065	878	387	1943	439	640	1260
	Dec	1059	884	395	1943	437	638	1265
1985	Mar	1051	882	396	1933	435	631	1261
	June	1054	899	408	1953	437	630	1282
	Sept	1063	903	409	1966	548	630	1292
	Dec	1054	895	411	1949	432	632	1289

Source: Department of Employment Gazette

Table 2 Employees in Employment in Scotland (000s) seasonally adjusted

		Male	Female	Total	Agri. for. fish.	Manuf. (2-4)	Prod.& Const. (1-5)	Services (6-9)
1979	June	1205	893	2098	48	607	837	1213
1983	June	1066	848	1915	43	448	648	1224
1984	Sept	1058	875	1934	42	438	636	1255
	Dec	1062	884	1945	40	437	637	1268
1985	Mar	1058	891	1949	40	437	634	1274
	June	1051	894	1944	41	438	631	1272
	Sept	1057	1901	1957	43	436	627	1287
	Dec	1057	895	1952	39	431	621	1291

Source: Scottish Economic Bulletin, June 1986

The industry distribution of numbers employed makes it clear that part of the explanation lies in declining employment in traditional heavy industries, which typically employed full-time males, together with the expansion in the services sector which has stimulated part-time female employment. There is certainly evidence that the changing employment pattern - particularly during the recent recession - cannot be satisfactorily explained by shifts in industry composition or increased female participation alone. The former point has been discussed in past issues of the **Commentary**; the latter is discussed below.

Participation

The population of working age determines the maximum potential size of the labour force. This population is largely determined by demographic factors which tend to be comparatively insensitive to current economic conditions, but it is also influenced in a regional economy such as Scotland by net migration flows which may well respond to the current state of the economy.

The population of working age consists of the employed, the unemployed and non-participants. The distinction between the latter two groups depends on whether individuals of working age are 'actively seeking' employment or not: 'active seekers' are unemployed; those not engaged in search for work are non-participants. This distinction between the unemployed and non-participant stocks is, however, difficult to apply in practice. Considerable scope for disagreement exists, and this is the source of the widely different estimates of 'true' unemployment by various political and other groups, the basis of which was analysed in the last **Commentary**.

Table 3 presents estimates of the civilian labour force which is defined to include employees, the self-employed and those "seeking work" in accordance with individuals' responses to questions in censuses and labour force surveys.

The population of working age has exhibited a small trend increase of 6.5% over the period as a whole. The labour force, in contrast, grew only 5.3% and has fluctuated noticeably, peaking at 2.48 million in 1979 and bottoming out at 2.42 million in 1983. The implication is, of course, that the 'activity' or participation rate - the proportion of working age which is 'active' in the labour market - has exhibited a pro-cyclical pattern. This is confirmed by inspection of the third column of Table 3.

Table 3 Civilian labour force (000s) activity rates in Scotland

	1971	1979	1983	1984
Total				
Population of working age	3782	3919	4019	4039
Labour force	2303	2484	2419	2425
Activity rate (%)	60.9	63.4	60.2	60.0
Male				
Population of working age	1771	1849	1906	1917
Labour force	1426	1453	1426	1432
Activity rate (%)	80.5	78.6	74.8	74.7
Female				
Population of working age	2011	2070	2113	2122
Labour force	877	1031	993	993
Activity rate %	43.6	49.8	47.0	46.8

Source: Department of Employment/Labour Force Surveys. Reported in Appendix 1 to the MSC's Corporate Plan for Scotland 1986-1990

The aggregate figures tend to obscure the different patterns - at least in a secular context - of male and female activity rates. Both male and female populations of working age have exhibited moderate trend increases of roughly 0.55% p.a. and 0.36% p.a. respectively. However, male activity rates have exhibited a trend decline, whereas that of females has increased noticeably. Between 1971 and 1979 male activity rates fell by 2.4%, while female rates rose by 14%.

The cyclical pattern of activity rates is similar for both males and females, however. In each case activity rates peaked in the last (moderate) cyclical peak of 1979 and have declined with the ensuing recession.

The trend decline in the male participation rate reflects in part a trend towards earlier (and more complete) retirement but may also in part reflect declining employment opportunities which males have been experiencing for some time. Certainly, there seems little doubt that the recent reduction in male activity rates is at least partially attributable to the discouraging effects of prolonged recession. Not only has male employment suffered, as already noted, but so too has male participation in the labour force.

The trend rise in female participation rates is well documented throughout Europe and primarily reflects increased activity rates among married females. This reflects a combination of social and economic factors, among which demand-side influences cannot be discounted as the impact of the current recession makes clear. Even over the longer term the growth of part-time employment and job opportunities for females, together with tightening male employment possibilities, are likely to have exerted a significant impact.

The apparent sensitivity of the size of the workforce to aggregate demand sits uncomfortably with monetarist notions of a unique and stable 'natural rate' of unemployment. Persistently low levels of aggregate economic activity appear to reduce the size of the labour force: the 'natural' labour force is itself demand-dependent. Such effects may not be capable of costless reversal, however: lack of work experience may lead to de-skilling and make workers less attractive to employers; prolonged 'non-participation' or 'unemployment' may cause workers tastes to change in favour of 'leisure' as against 'work'. Such sources of 'hysteresis' effects do, nevertheless, imply that monetarist perspectives are unduly pessimistic as to the possible effects of demand management and structural policies.

It is interesting to note that in the current Scottish recession the female participation rate fell in 1984 despite increasing female employment. It is likely that female activity rates will pick up as recovery is effected.

As noted above, in a regional context one of the determinants of the 'population of working age', and perhaps the only one sensitive to current economic influences, is **net migration.** Recent net migration data are presented in Table 4. A negative sign indicates a net out-migration from Scotland, a characteristic of every year since 1971 except with respect to migration flows with the rest of the UK in 1974). Net migration flows may appear comparatively small in any one year in relation to population levels. However, they invariably swamp 'natural' changes in the population.

Furthermore, migration flows can be regarded as a mechanism for the spatial reallocation of the **stock** of population, so that migration's true significance is better appreciated in terms of its cumulative effects. From 1980 to 1985 inclusive, for example, a net total of 93.8 thousand people migrated from Scotland, almost five times the natural increase in population over that period, and representing 1.8% of the 1985 population. On the assumption that a third of migrants were employed, unemployment in 1985 would have been nearly 10% higher in the absence of migration flows, **ceteris paribus.** Over the 1980s 54.3 thousand or 57.9% of total net outmigration consisted of migration to overseas destinations.

Table 4 Population and migration (000s)

	Population	Natural increase	Total	Net migration to rest of UK	Overseas
1971	5217.4	26.1	-21.7	-11.2	-10.5
1972	5210.4	18.8	-27.6	-14.8	-12.8
1973	5211.7	12.4	-10.7	-4.0	-6.7
1974	5216.6	6.8	- 2.0	+5.0	-7.0
1975	5206.2	4.6	-19.0	-4.0	-15.0
1976	5205.1	2.7	-4.8	-0.4	-4.4
1977	5195.6	-1.1	-9.8	-4.3	-5.5
1978	5174.4	-1.0	-16.3	-7.6	-8.7
1979	5167.0	1.8	-14.6	-7.1	-7.5
1980	5153.3	4.3	-16.3	-9.9	-6.4
1981	5180.2	6.6	-23.1	-5.0	-18.1
1982	5166.6	1.5	-14.9	-0.9	-14.0
1983	5150.4	1.8	-17.8	-5.0	-12.8
1984	5145.7	1.4	-9.1	-9.0	-0.1
1985	5136.5	3.7	-12.6	-9.7	-2.9

Source: Scottish Economic Bulletin, June 1986

Table 5 Scottish unemployment - unadjusted

	Unemployed including school leavers						Unemployment flows excl.school leavers**	
	Male		Female		Total			
	Number 000s	Rate* %	Number 000s	Rate* %	Number 000s	Rate* %	Inflow 000s	Outflow 000s
1979 Q2	-	-	-	-	150.2+	6.6+	-	-
1985 June	239.9	16.5	105.7	10.0	345.6	13.8	37.9	40.7
July	241.6	16.6	110.7	10.5	352.3	14.0	46.0	39.3
August	240.2	16.5	109.9	10.4	350.0	13.9	36.8	39.7
September	243.9	16.8	111.8	10.6	355.8	14.2	44.2	46.0
October	243.6	16.7	109.7	10.4	353.3	14.1	44.3	44.8
November	242.8	16.7	108.7	10.3	351.5	14.0	41.4	41.8
December	245.3	16.9	108.0	10.2	353.2	14.1	37.3	35.2
1986 January	256.9	17.7	114.3	10.8	371.1	14.8	36.5	23.7
February	253.6	17.4	113.6	10.7	367.2	14.6	37.7	42.1
February[1]	250.9	17.2	111.8	10.6	362.7	14.4	n/a	n/a
March	248.8	17.1	110.6	10.4	359.3	14.3	35.2	38.6
April	246.5	16.9	110.1	10.4	356.7	14.2	37.8	41.1
May	242.9	16.7	108.7	10.3	351.6	14.0	36.6	42.7
June	242.9	16.6	109.2	10.3	351.4	14.0	39.9	40.7
June (old basis)		18.7		10.8		15.3		

1 Figures since February 1986 are on the new basis (estimated for February) and are not directly comparable with earlier figures. It is estimated that the change in the compilation of the figures reduces the count by 4570 on average.

** The recorded unemployment flows are only slightly affected by the change in the compilation of the unemployment statistics from March 1986.

* Unemployment percentage rates are calculated using total labour force on 1985 denominators (except for figures marked +)

Source: Department of Employment

The traditional, neoclassical view treats the migration process as a potent force limiting variations in economic activity across space. Labour flows from low wage to high wage regions until wages (and incremental productivities) are equalised in all regions (in the simplest case of homogeneous labour). Preliminary results of investigations carried out within the Institute indicate that changes in real wage differentials are indeed an important determinant of net migration (at least to the rest of the UK), but that the impact on migration **flows** is temporary (although the impact on the spatial allocation of the population stock is permanent). This, together with evidence of reasonable explanatory power of more Keynesian orientated models emphasising income and employment growth differentials, suggests the inapplicability of the simplest neoclassical view of the migration process to Scotland.

Migration flows could even conceivably worsen regional differentials if migration's selectivity in age and skills serves to increase productivity in the recipient region relative to the donor region. However, there is, as yet, little evidence available on this.

UNEMPLOYMENT

The preceding estimates of the civilian labour force together with those on employment imply estimates of unemployment. However, these estimates, based as they are on survey respondents' answers concerning job search, differ from the official estimates based on a count of claimants. In the present section we concentrate on this latter measure, despite its undoubted weaknesses, because of the frequency with which the relevant data are published.

In fact, as the last **Commentary** discussed, official methods of estimating unemployment have been continuously altered, invariably with the effect of reducing measured unemployment. Further revisions to the unemployment **rate**, although not unemployment **levels**, have been introduced since mid-July. The labour force denominator used to calculate the percentage unemployed has been extended to include the self-employed and armed forces as well as employees in employment and unemployed claimants. As the last two lines of Table 5 indicate, the effect is to reduce the male unemployment rate from 18.7% to 16.6% and the female rate from 10.8% to 10.3%. The estimated total unemployment rate fell from 15.3% to 14.0%.

The new seasonally unadjusted series implies a reduction in unemployment in June, but the new adjusted series indicates a rise - in line with the experience of every month so far in 1986.

The stock of unemployed has gone up by a factor of 2.3 since 1979, but interestingly, female unemployment (on a claimant basis) has increased proportionately more in the 1980s, despite both increased employment (on a head count basis) and reduced participation (as measured by labour force surveys).

Turnover of the unemployment stock might be deduced to be comparatively high given that the June 1986 stock of 351.4 thousand was associated with an outflow of 40.7 thousand. The probability of leaving unemployment, on average, during this period was therefore 0.12. However, as has been documented in previous **Commentaries**, the heterogeneity of the labour force implies that many individuals have a much lower probability of leaving unemployment than this suggests.

Table 6 embodies one manifestation of this heterogeneity. Currently more that 40% of the unemployed in Scotland have been out of work for more than a year, and the proportion has been increasing through time. As noted earlier experience of persistent unemployment may shift workers 'tastes' away from employment and may result in 'de-skilling' so reducing the attractiveness of the long-term unemployed to employers.

Table 6 Long-term unemployment : Scotland April 1985, April 1986

Age	Long-term unemployed	Total unemployed	% Long-term unemployed
Apr.1986			
Less than 20	13320	61639	21.6
20-34	61080	160957	37.9
35-54	52534	101309	51.8
55 & over	19250	32771	58.7
Total	**146184**	**356676**	**41.0**
Apr.1985			
Less than 20	15505	63812	24.3
20-34	58733	160830	36.5
35-54	48853	97477	50.1
55 & over	18449	32591	56.6
Total	**141540**	**354710**	**39.9**

Note Figures not comparable due to revised methods of computation

Source: Department of Employment

This year's Budget announced limited measures which appear geared to this problem. Thus the national Restart Programme was initiated with effect from July 1986 to provide Jobcentre interviews and assistance to all those who have been or become unemployed for twelve months or more. Also the Community Programme which provides up to a year's work for long-term unemployed is to be expanded, in Scotland by 2,250 places - an increase of slightly less than 8%. Whilst such measures are obviously welcome, they seem unlikely to have a significant impact given the scale of the current problem.

INDUSTRIAL RELATIONS IN SCOTLAND

There are very few grounds for optimism in Scottish industrial relations. Closures, cutbacks and reductions in employment continue to be the key features of negotiations and discussions between employers and employees.

The apparent arrival of the 'election season' has tended to confuse the pattern of events in education. The rejection, by the Secretary of State for Scotland, of the plan to close three colleges of education is best understood in terms of his intention to review this decision in a year's time, ie possibly after the next general election, rather than in the details of the announcement that there would be no closures, but two mergers (Aberdeen and Dundee colleges will share the same boards of governors as will Moray House and Dunfermline Colleges) and the shedding of surplus capacity.

A similar degree of obscurity has settled over the deliberations of the committee investigating teachers' pay and conditions, leading to speculation that major policy changes will not be strenuously pursued before the election. However, the publication of "no awards" by the SEB where elements of assessed work were not submitted by teachers may indicate the first stages of a government campaign to win public support for its dealings with teachers. It is unclear whether the same degree of political procrastination will operate at the regional level over the closure of schools. Early leaks from Strathclyde's confidential programme of school rationalisation suggests the possibility of up to 84 schools being closed by 1990. However, this figure is likely to be reduced to approximately 45 schools.

No such government prevarication or general confusion has obscured developments within mining. The declining demand for coal was well established before the rapid depression of oil prices which has led to a further reduction in the SSEB's demand for coal to 3.6 million tonnes for 1986-87. It is doubtful whether the call for voluntary redundancies and temporary cuts in production will be sufficient to reduce stocks and match supply to demand. Despite a reduction of 50% in the number of miners over the last two years, further severe redundancies and the closure of a number of pits now seem inevitable.

The rejection by the membership of the NUR of the call for industrial action against British Rail's programme of workshop closures effectively signals the end of the struggle to maintain major repair facilities at Springburn in Glasgow. Moreover, it implies a recognition of the closure of the Cowlairs, Hyndland and Polmadie depots by 1990, and a run down of depots at Aberdeen, Clyhils and Ayr. The executive of the NUR failed to win the support of the members outwith the workshops and to convince members in the Derby workshops, where British Rail plans to concentrate its activities. The difficulty experienced by the NUR in mobilising the support of those not affected by an issue is a major problem of balloting. However, the strength of the popular belief that balloting has democratised trade unions is such that neither the Labour Party nor the TUC can enter the next election with anything other than a pro-ballot policy.

Reorganisation continues to contribute to a sense of uncertainty and low morale within the health service. Whilst the announcement of a review of the services provided by doctors and dentists was broadly welcomed by the profession some concern was expressed over the provisions as they pertained to rural areas and to compulsory retirement plans. However, the proposal to introduce unit general management teams to run hospitals and similar units in order to promote greater efficiency and effectiveness met with less support. First, almost all of the organisations representing medically trained staff in the management and running of the NHS. A second more general criticism stems from the very principle embodied in the Griffiths Report, that of stressing professional managerialism and efficiency as the key factors in the health service. This second criticism was widely seen in the comments made on the proposals to reorganise the Greater Glasgow Health Board.

Within the private sector, work flexibility appears firmly established as a key feature in both organised and non-organised establishments. John Brown's agreement with four trade unions representing approximately 1,000 manual and non-manual employees has: led to a reduction in the number of manual workers' grades from twenty to four; introduced a considerable degree of work flexibility; enabled the introduction of new technology; and covered the increased use of temporary and sub-contracting labour to meet temporary fluctuations in the work load. Flexibility in working schedules was a contributory factor in the dispute affecting Cal Mac services off the West of Scotland. However, agreement on flexible work practices amongst NUS workers in the off shore oil supply sector to freeze pay, increase tours of duty, cut allowances and end reserve crews was not sufficient to prevent redundancies.

The announcement of redundancies in the off-shore oil industry, British Rail, British Shipbuilders and British Steel amid continued fears of redundancies elsewhere, prompted the STUC to initiate a campaign and conference on the issue of employment. The trade union movement in Scotland faces not only the problems of declining membership due to job losses in traditional industries but also the difficulties of organising employees in the growth industries. The growth areas of employment have been part-time work for women, a group traditionally difficult to organise. Moreover, the growth in subcontracting and in temporary and fixed term contract labour has further added to the difficulties of trade unions. Many employees believe that the possibilities of moving from temporary to permanent employment status will depend on their individual actions, possibly in not joining a trade union, rather than by collective action.

Regional Review

REGIONAL LABOUR MARKET

The May edition of the **Commentary** included a discussion of the change in the compilation of the unemployment statistics introduced in March. This change means that neither unadjusted regional figures nor those for localities (such as Travel to Work Areas (TTWA) and Parliamentary Constituencies) can be compared with those published prior to February 1986. Following this alteration in the method of counting the **number** of people deemed to be unemployed, the means of calculating the unemployment **rate** was changed in July 1986. This involved the addition of HM Forces and an estimate of the self-employed to the long-standing definition of the 'labour force' - employees in employment plus the unemployed. By including these two groups in the denominator used to calculate the unemployment rate, Scotland's unadjusted rate for July is 1.3 percentage points lower than would otherwise have been the case. Assessment of trends in the labour market is further complicated by the fact that the new definition of the labour force does not apply to localities, since estimating the self-employed and HM Forces is not (yet) possible for small areas. Thus, unemployment rates for these areas continue to be reported on the same basis as prior to July 1986. These changes bring to 16 the number of amendments to the calculation of unemployment statistics since 1979.

At 344,200, the seasonally adjusted figure for Scottish unemployment in July, was up 3,000 on the previous month and 11,000 higher than at the same time last year. The seasonally adjusted unemployment rate stood at 13.7%. As presented in Table 1, the unadjusted unemployment figure for July was 358,988 an increase of 7,629 since June and of 2,312 since the April figure reported in the last **Commentary.** In the three months since April the raw count of the unemployed has fallen in 7 of the 12 Scottish Regional and Island Authority areas. However, the magnitude

Table 1 Unemployment by region

	Total July '86	Change since April '86	% rate July '86
Borders	3,686	- 3	9.5
Central	18,780	- 379	15.9
Dumfries & Galloway	6,691	- 219	13.2
Fife	22,323	- 194	16.4
Grampian	21,023	1,932	9.3
Highland	12,570	- 704	15.0
Lothian	47,822	1,653	13.0
S/clyde	195,533	- 257	18.4
Tayside	25,917	235	14.6
Orkney Islands	805	- 5	11.9
Shetland Islands	771	17	6.4
Western Isles	2,067	236	21.1
Scotland	**358,988**	**2,312**	**15.6**

Source: Department of Employment

of the increases in the five other areas significantly outweigh these reductions. Particularly concerning is the rise in the level of unemployment in Grampian Region. It was noted in May that the Grampian rate - traditionally one of Scotland's lowest - had been growing faster than that of any other region and this was seen merely as a foretaste of the impact on the area of the collapse in the price of oil earlier in the year. This fear appears to be materialising and it would not be a surprising if the Grampian position continued to worsen in the coming months. Unemployment has also increased steeply in the Western Isles and Lothian. Interestingly, Highland Region, which has considerable links with the oil and oil-related sectors, recorded the largest fall in unemployment of any region.

In all but three of the regions - Grampian, Lothian and the Western Isles - the male unemployment rate fell in the

Table 2	Unemployment rates by sex and by region			
	% rate July 1986		Change since April 1986	
	Males	Females	Males	Females
Borders	10.1	8.7	-0.6	0.4
Central	18.6	12.3	-1.0	-0.1
Dumfries & G/way	14.2	11.7	-1.0	-0.2
Fife	19.0	13.2	-0.5	-0.2
Grampian	9.7	8.9	0.6	0.8
Highland	17.2	11.8	-0.9	-1.4
Lothian	16.4	9.1	0.3	0.4
S/clyde	22.9	12.6	-0.7	0.3
Tayside	17.4	11.3	-0.2	-0.1
Orkney Islands	13.6	9.6	-0.6	0.3
Shetland Islands	6.0	7.2	-0.3	0.7
Western Isles	27.4	12.7	3.0	0.1
Scotland	**18.9**	**11.4**	**-0.4**	**0.2**

Source: Department of Employment

three months to July (Table 2). This contributed to a fall of 0.4 of a percentage point in the male overall unemployment rate (unadjusted) to 18.9%. In contrast, the female unemployment rate rose in seven regions, while falling in five, and now stands 0.2 of a percentage point higher at 11.4%. The largest changes occurred in Highland Region where the rates for both sexes fell: by 1.4 points for women and by 0.9 of a point for men. As noted in the last **Commentary**, the changes in unemployment within regions, although small, appear to be to the relative disadvantage of women.

Although the position in Grampian has worsened in recent months and gives cause for concern, the Region's unemployment rate of 9.3% is still the second-lowest in Scotland and is indicative of a level of labour market buoyancy much envied in other areas. Tables 3 and 4 demonstrate clearly the variations in unemployment rates which exist both inter-regionally and intra-rationally. In Table 3 a "high unemployment" region is one in which a majority of TTWAs have unemployment rates greater than the Scottish average, and vice-versa for "low unemployment" regions. This approach identifies Strathclyde and Highland, in particular, as being high unemployment regions, although each is less strongly so than in April. Borders and Grampian remain low unemployment regions.

Table 3	TTWA in region with unemployment rates above the Scottish and regional averages		
	No of TTWA	Noabove Scottish average	No above regional average
Borders	5	0	2
Central	3	2	2
Dumfries & Galloway	7	2*	4
Fife	3	1	1
Grampian	9	2	8
Highland	8	5	5**
Lothian	3	1	1
Strathclyde	12	9	5
Tayside	7	2	2

1

*Additionally, the rate in the Stranraer TTWA is equal to the Scottish figure.

**Additionally, the rate inthe Badenoch TTWA is equal to the regional figure.

Source: Department of Employment

The final column of Table 3 and Table 4 illustrate the diversity of unemployment rates within regions. Grampian continues to be the most polarised region, with the dominant Aberdeen TTWA being the only one with an unemployment rate below the regional average. However, the rise in unemployment in Aberdeen coupled with a fall in the Forres TTWA rate has seen the ratio of unemployment rates in the highest and lowest Areas fall from 3.6 in April to 3.3 in July. In Dumfries and Galloway too the distribution of unemployment remains uneven, with the Cumnock and Sanquhar rate greater than that in Dumfries by a factor of 2.5. In contrast, the intra-regional variation in Central and Fife is limited.

Since April, Cumnock and Sanquhar has acquired the unpleasant privelege of being the TTWA in Scotland with the highest unemployment rate, replacing Forres. Within Highland region a fall in the Skye and Wester Ross rate has meant that

Table 4 TTWA with highest and lowest unemployment rates

		%	High -Low	High /Low
Borders	H Berwickshire	15.1	7.3	1.9
	L Galashiels	7.8		
Central	H Alloa	18.5	5.0	1.4
	L Stirling	13.5		
Dumfries & G/way	H Cumnock & Sanquhar	25.5	15.1	2.5
	L Dumfries	10.4		
Fife	H Kirkcaldy	17.7	6.2	1.5
	L North East Fife	11.5		
Grampian	H Forres	25.2	17.5	3.3
	L Aberdeen	7.7		
Highland	H Invergordon & Dingwall	19.7	9.2	1.9
	L Thurso	10.5		
Lothian	H Bathgate	20.8	10.3	2.0
	L Haddington	10.5		
S/clyde	H Irvine	24.7	11.7	1.9
	L Oban	13.0		
Tayside	H Arbroath	19.0	8.6	1.8
	L Perth	10.4		

Source: Department of Employment

Invergordon and Dingwall is now the high unemployment TTWA in the region. Meanwhile, in Strathclyde, Oban and not Islay/Mid-Argyll is the Area with the lowest unemployment rate in the region.

Although aggregate unemployment continues to rise to ever-higher levels, it would be extremely misleading to suggest that there is movement only **into** unemployment. During the month to 10 July, almost 95,000 people either joined or left the register although the net change in unemployment was less than one-tenth of this figure. Tables 5 and 6 present the probabilities of leaving unemployment and becoming unemployed respectively, in the month to 10 July.

Table 5 reports the probability of a person leaving the unemployment register in the specified period. Of course this is not the same as the probability of a registered unemployed person obtaining a job since some of the unemployed may simply leave the labour force due to "discouragement" caused by unemployment. Moreover, many of those newly entering employment will have done so from outwith the labour force, for example, many married women. Excluding the Island areas, the probability of leaving the register varied from 14.7% in Grampian to 9.3% in Strathclyde, with the mean Scottish figure being 12.4%. Borders, too, had a high probability of leaving unemployment at 14.3%. In the other regions the probability of leaving the register is covered by one percentage point.

In only three regions is the probability of leaving unemployment greater for men than for women, namely Borders, Grampian and the Shetland Islands. This may indicate either that women are generally more able to find work than men and/or that women have a greater propensity than men to leave the labour force completely.

The probability of becoming unemployed is a measure obtained by expressing the number of people coming on to the register as a proportion of the labour force. Again excluding the Island areas, Borders and grampian regions along with Lothian have the lowest probabilities of joining the register, 1.6%, 2.0% and 2.0% respectively. Of the mainland regions Dumfries and Galloway has the highest probability of joining the register at 2.4%.

Taken together Tables 5 and 6 demonstrate the double problem facing high unemployment regions such as Strathclyde: not only is the chance of becoming unemployed greater but the chance of leaving unemployment is smaller. The contrast with Grampian and Borders is stark with these regions offering lower unemployment probabilities and high register-leaving probabilities.

Table 5 Probability of leaving unemployment between June and July 1986, by region (%)

	Male	Female	All
Borders	15.1	13.0	14.3 (1)
Central	10.8	12.1	11.2 (3.5)
Dumfries & Galloway	9.8	11.1	10.2 (8)
Fife	10.5	11.7	10.8 (6)
Grampian	15.7	13.1	14.7 (1)
Highland	11.1	11.4	11.2 (3.5)
Lothian	9.5	12.5	10.4 (7)
Strathclyde	8.3	11.6	9.3 (9)
Tayside	10.9	11.4	11.1 (5)
Orkney Islands	9.9	12.1	10.7
Shetland Islands	22.6	16.6	20.1
Western Isles	10.3	14.3	11.4

Source: Department of Employment

Table 6 Probability of joining the unemployment register from the labour force between June and July 1986, by region (%)

	Male	Female	All
Borders	1.6	1.7	1.6 (1)
Central	2.2	2.0	2.1 (5)
Dumfries & Galloway	2.3	2.5	2.4 (9)
Fife	2.3	2.0	2.1 (5)
Grampian	2.1	1.9	2.0 (2.5)
Highland	2.6	1.9	2.3 (8)
Lothian	2.2	1.9	2.0 (2.5)
Strathclyde	2.1	2.2	2.1 (5)
Tayside	2.4	2.0	2.2 (7)
Orkney Islands	1.5	1.5	1.5
Shetland Islands	1.4	1.8	1.5
Western Isles	6.2	2.7	4.7

Source: Department of Employment

REGIONAL TRENDS

The most significant development in the regions has occurred in **Grampian** where the rapid decline in oil prices in the opening months of the year has seriously disrupted the oil and oil-related sectors and the multiplier effects in other sectors are beginning to emerge. Since May Houlder-Marine Drilling have shed more than 100 jobs in driling and diving support and in construction operations. Longmans Group, whose interests include labour hire, draughting, property and computer services went into receivership in late July. The group has been affected, first, by reduced demand for its labour-hiring services and, secondly, by falling occupancy rates and declining property values in Aberdeen. Turnover fell from £2.7m in 1983 to £1.9m in 1985 and the staffing level has been cut from 70 to 50 since last year. The decline in offshore contracts has also led to the closure of the Aberdeen Offshore Contractors' Association training school at Dyce which was opened in February of this year. Even companies which are still trading profitably are suffering from the decline of the offshore sector. For example, the KCA Drilling Group reported increased profits for all of its activities with the exception of offshore drilling which was the source of heavy losses.

In a move apparently unrelated to the downturn in North Sea activity, BP announced in July that 300 technical staff currently based in Dyce will be transferred to London as part of a plan to centralise technological expertise. This will result in the further loss of high income employment from the area.

Many of the secondary effects of the oil price fall are working their way into the local economy. Traffic at Aberdeen airport declined in June, with the number of passengers 8.3% lower than in June 1985 and helicopter cargo down by one-third from last year. Furthermore, the British Airports Authority expect any continued weakness of oil prices to lead to further declines in traffic levels.

All parts of the housing industry have reported a serious decline in fortunes in 1986. Redundancies and the transfer of staff in the oil sector together with a general over-supply of housing have combined to produce three problems. First, there have been a number of redundancies on the construction side as demand for new housig has fallen and builders have withdrawn from speculative projects. Secondly, the level of house sales and house prices have declined compared to the first half of 1985. Thirdly, the building societies are reporting marked increases in the level of repossessions.

The decline in oil-related activity is also having an effect for young people entering the labour market for the first time. Although Grampian school-leavers are still better placed than most in Scotland to find employment, the Careers Service reports a 40% decline in the number of vacncies reported by employers in the last year, with the picture repeated throughout most of the region. A further example of the problems facing young people is found in the Aberdeen-based Tullos Training. Last year each of its 71 YTS "graduates" found employment. However, up to 20% of the 67 leaving YTS this year are expected to be unemployed while the intake of trainees this year is being cut to 46.

Outwith the oil-related sector there has been little in the way of compensating developments. Lawson of Dyce, part of the Unilever group, announced the closure of its food factory early in July. The closure will be completed by 1988 with the loss of 550 jobs. Also in the food sector, Donald's Portlethen meats factory announced 50 redundancies with a further 20 a possibility.

The only significant positive development was in the announcement from the John Lewis Partnership that a new store will be located in Aberdeen from the Autumn of 1989. It is expected that this will employ 700 people.

Highland region, too, is heavily dependent on North Sea activity and June saw the awarding to Highland Fabricators at Nigg of the £46m contract to build a platform jacket for operation in the Eider field by Shell/Esso. However, this did not prevent the loss of approximately 100 jobs at the yard following the completion, on time, of the jacket for the BP Forties field project. The corollary of Hi Fab's success in obtaining the new order was the failure of McDermott's at Ardasier, the other Moray Firth competitor for the contract. As a result, McDermott are expected to lay-off about 550 people, and perhaps more in the longer-run.

The region has received £544,000 in grants from the European Regional Development Fund for a number of projects. The money will be spent on a range of projects, including extensive factory and workshop building programmes. It is estimated that the grants may generate 44 new jobs.

Strathclyde faces the continuing decline of its traditional industries with closures and redundancies announced in shipbuilding, the railways and steel production since the last **Commentary.** Between September of 1986 and March 1987 495 people wil be made redundant from Govan Shipbuilders and the closure of the Ferguson-Ailsa yard at Troon will result in 325 job losses. However, there has been considerable private sector interest in the Troon company and some form of take-over appears likely. The job losses comprise part of BS's rationalisation of its merchant capacity.

In mid-August the French-owned UIE of Clydebank announced its intention to reduce its workforce by more than 1,000. This figure includes not only sub-contracted labour but also a significant proportion of the "core" staff.

British Rail Engineering Ltd also announced extensive redundancies across the country including the loss of 1,100 jobs at its Springburn works. This will reduce the workforce to less than 200 people.

There will be 310 redundancies and 60 posts "lost" through natural wastage at three British Steel plants in Lanarkshire: Calder, Imperial and Clydesdale. BSC blames a fall in orders worldwide and the decline of oil-related activity, in particular, for the job losses.

Optimism in Strathclyde can be found in the success of Yarrow Shipbuilders in receiving contracts to build two Type 23 frigates for the Royal Navy. There is also speculation that Kaukas, the Finish paper manufacturing firm, will locate a new plant in Irvine with some 900 new jobs.