The Scottish Economy

Industrial Performance

HOW DEEP WAS THE RECESSION ?

Throughout much of the last two years the official view has been that the Scottish recession was less severe than that experienced in the United Kingdom as a whole. Indeed, the Secretary of State has proclaimed to a variety of audiences, including the House of Commons, that Scotland was, and still is, leading the country out of recession. This diagnosis has not met with universal approval, as it appears to be founded primarily on the growth of the Scottish electronics sector and on the smaller proportionate rise in unemployment which has occurred in Scotland than in Britain as a whole. This latter fact is not particularly surprising as the pre-recession level of unemployment in Scotland was markedly above that of the rest of Britain.

During 1983 it was difficult to do much more than cast doubt on the official diagnosis. An independent assessment of the severity of the recession in Scotland was precluded by the non-publication of the Scottish Index of Production during much of that year. Its non-appearance, while primarily due to the adoption of the 1980 standard industrial classification (SIC 1980), was convenient to the official view since the only other indicator of Scottish economic performance, the CBI Industrial Trends Survey, consistently showed Scotland to be lagging behind the rest of the country.

The Scottish Index of Production has however now reappeared, albeit at the time of writing only with data to the end of 1983. It is therefore possible to chart the performance of the industrial and construction sectors over the period from the last cyclical peak in mid-1979 till the end of 1983. As these sectors account for only half of total economic activity, all the evidence is not yet in on the comparative performance of the Scottish economy. However, given the importance of the industrial sector, the claim that Scotland is leading Britain out of recession rings rather false if the performance of this sector in Scotland can be shown to be inferior to that in the rest of Britain. That regrettably is what the Scottish Office figures suggest.

Like all statistics, the figures need to be interpreted with care, and with particular care if any inference is to be drawn as to Scotland's relative performance. Examination of the entrails leads to several conclusions:

- the contraction in Scottish industrial output was ultimately just as severe as that in Britain as a whole but spread over a longer period
- recovery in the Scottish industrial sector began considerably later than in British industry as a whole and was markedly less vigourous, at least till the end of 1983
- once oil related activities are excluded, the recovery has been exceedingly slow both in Scotland and in Britain as a whole
- analysis by sector confirms these aggregate findings but there is considerable variation in the relative performance of individual industries.

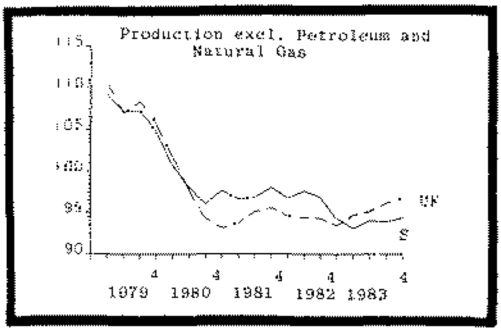
The peak of the previous upturn occurred during the second quarter of 1979. From that peak to the subsequent trough of the recession the broadest index of industrial output, measuring the combined performance of the manufacturing, energy and water supply, and construction sectors, fell by just over 13% for both Scotland and Britain as a whole. At first sight it would therefore seem that Scotland's experience of industrial recession was similar to that of Britain as a whole.

But first sight is not enough, a little more delving is rewarding and reveals that the timing of the recession in Scotland differed from that in the UK as a whole. Whereas the trough for the UK economy was reached in early 1981, followed by stuttering recovery, the low point of the Scottish index was not reached till mid-1983. Scotland's descent into recession was therefore slower than that of the UK, though ultimately just as deep. Having gone more slowly into recession, the Scottish industrial sector had by the end of 1983 only barely come out of it while recovery in the corresponding UK sector was more advanced. In the final quarter of last year the output of UK production and construction industries was some 8% above the low point reached in mid 1981, but the output of the corresponding Scottish industries was barely 2% above the recessionary trough.

It is sometimes suggested that movements in the aggregate output of the Scottish and UK production and construction sectors cannot validly be compared owing both to the statistical treatment of oil-related industries and to the greater relative size of the construction industry in Scotland. Oil-related activities do distort the comparison. In the case of the UK index, oil-related activities account for over one tenth of the total index. By contrast, the weighting of such industries in the Scottish index, at less than 2%, is much smaller. As these relative weights reflect bureaucratic and political choices about the regional allocation of oil activity, and are therefore essentially arbitrary, it makes sense to consider the behaviour of output when such activities are excluded. It makes particular sense to do so since the output of the oil and gas sector increased by almost 50% from the trough of the UK recession in mid 1981 to the end of 1983. Non-oil UK output rose by only 4% over the same period.

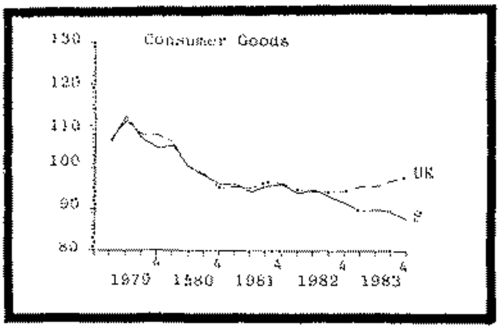
A parallel case can be made for considering the behaviour of the cyclically sensitive construction industry in isolation, rather than aggregating it with the production industries. The construction sector looms markedly larger in the Scottish index, where it accounts for almost a quarter of the total weighting compared to only one sixth in the UK index (excluding oil-related activities in both cases).

Once these adjustments are made, the data for Britain as a whole show non-oil industrial output at the end of 1983 still well below its 1979 peak and provide no evidence for the claim that Scotland led the British economy out of recession. From peak to trough, output of non-oil production industries fell by about 15% in both Scotland and the UK. In the final quarter of 1983 this measure of Scottish industrial output was still almost 14% below the cyclical peak, while the corresponding figure for the UK as a whole was 12.5% below. Just as with the broader based index, Scotland's descent into recession was slower, but ultimately just as deep as that experienced nationally, while its recovery from recession by the end of 1983 was less advanced than that of the UK as a whole.



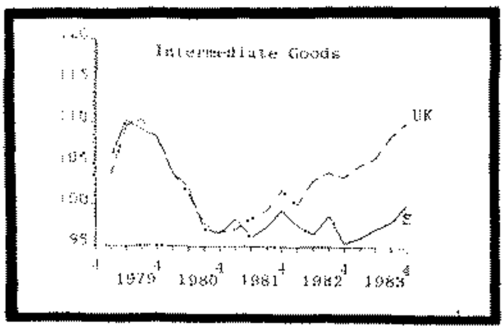
Of the four market sectors, consumer goods, intermediate goods, investment goods and construction, the Scottish experience was markedly less favourable than the British in two, namely consumer and intermediate goods. In both cases, the downturn in Scotland was more severe and the upturn less vigorous. The Scottish consumer goods sector experienced the most dramatic fall in output over the cycle. By the end of 1983 output of this sector in Scotland was almost a quarter below the previous peak figure for mid 1979, and the trend was still downward. Output of non-durable consumer goods, which account for almost 90% of this sector, had fallen by 18% and showed no sign of recovery by the end of 1983.

Much of the contraction in the output of the Scottish non-durable consumer goods sector reflects the performance of the Drink and Tobacco, Textiles, Footwear, Leather and Clothing industries. Drink and Tobacco experienced a fall in output of one third over the period from the mid 1979 peak to the second quarter of 1983. This sector, which includes the whisky industry, has shown little sign of recovery and has benefited hardly at all from the consumer boom of 1983. Similarly, a 28% fall in the output of Textiles and Allied Industries has been accompanied by only a marginal improvement during 1983.

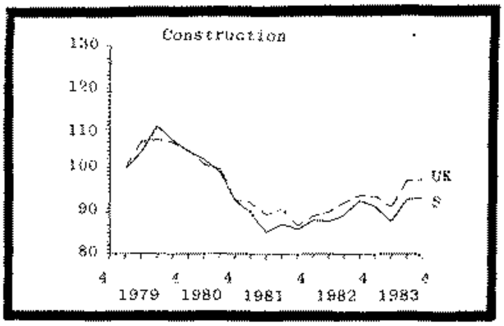


Output of durable consumer goods, although a relatively unimportant component of Scottish industry, has been particularly weak with output levels for the final quarter of 1983 in the region of 50% below the levels of the last cyclical peak.

By comparison, the performance of the UK consumer goods sector was more heartening. The 15% contraction in output experienced from peak to trough was significantly less than in Scotland. There is also evidence in the UK figures of a sluggish recovery of output in this sector during the latter half of 1983. During the final quarter of last year, output of consumer goods in the UK was some 4% above the recessionary trough, while output of such goods in Scotland was still falling. In the case of the specific consumer goods industries cited above, namely, Drink & Tobacco, and Textiles & Allied Industries, UK performance was somewhat better than that recorded in Scotland. Output in the UK Drink and Tobacco industry for example, fell by only 14% at the trough of the cycle, since when it has increased by about 5% overall. By contrast Scottish output in this sector fell by over a quarter, with practically no evidence of recovery by the end of 1983.

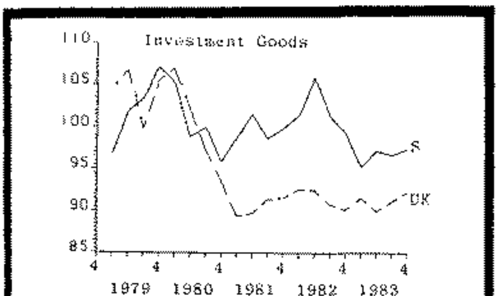


The performance of the Scottish intermediate goods sector is equally a source of some concern, though in this case inter-regional comparison is complicated by the inclusion of oil-related industries. From the mid 1979 peak to the last quarter of 1982 output fell by 14%. Since then there has been a recovery but at the end of 1983 output was still 9% below the previous cyclical peak. Once again this performance is inferior to the UK experience where intermediate goods output during the final quarter of last year equalled the previous cyclical peak. This sector includes many of the UK's most important export industries, including oil, and the timing of recovery here corresponds quite closely to the pick-up in economic activity in the world economy as a whole.



Comparison of the performance of the Scottish and UK construction industries also yields conclusions inconsistent with the proposition that Scotland led Britain out of recession. As noted at the outset, this sector makes a relatively greater contribution to total Scottish output than it does for the UK as a whole. Thus the fall in Scottish construction output of around 22% at the trough of the cycle had significant negative multiplier effects on the broader Scottish economy. In keeping with this sector's role as a leading indicator of cyclical trends the trough in Scottish construction output was reached earlier than in most other sectors, coming around the end of 1981. By the end of 1983 construction output in Scotland was still almost 16% below its previous peak. Output of the UK construction sector also bottomed out during the fourth quarter of 1981, having fallen some 20% from the previous peak. However, by contrast with the Scottish experience, much of this fall in output had been reversed by the end of 1983 by which time UK output was only 9% below peak levels. Again, as with other sectors, it seems that although the depth of the recession in Scotland was broadly similar to that experienced in the UK as a whole the Scottish recovery has proceeded at a slower pace, notwithstanding the relatively more important role of this sector in the Scottish economy.

It is only in the investment goods sector that Scottish experience over the course of the cycle has been more favourable than that of the corresponding UK sector. However, this relatively more favourable sectoral experience does not justify optimistic claims about the Scottish economy functioning as an engine of growth for the broader UK economy as this is the least important of the Scottish market sectors and as recovery here has again been slow. From a peak in the fourth quarter of 1979, output of Scottish investment goods fell by 10% over the next year. There was a slight recovery during 1981 and the early part of 1982, but by the first quarter of 1983 output was still 11% below the cyclical peak. Since then there has been only a marginal recovery in investment goods output. The UK figures are even less encouraging. In the year to the first quarter of 1981 output of UK investment goods industries fell by over 16%, markedly further than in Scotland. There was little sign of recovery in the UK sector by the end of 1983, at which point output still remained 13% below the previous cyclical peak.



Though the aggregate of Scottish investment goods industries outperformed the UK, data for individual industries reveal with few exceptions, a generally inferior Scottish performance, although not surprisingly there is greater variation than at the more aggregate level. The major exception is the Scottish Engineering and Allied Industries sector where the trough of the cycle was reached in the first quarter of 1983. Though some two years later than the trough in the corresponding UK sector, the impact of the recession was less marked in Scotland where engineering output fell by about 15% compared to a fall in UK engineering output of 19%. By the end of 1983, recovery in Scottish engineering was more advanced than in this industry in the UK as a whole.

The experience of the Scottish engineering sector would have been much less favourable but for Electrical and Instrument Engineering where Scottish output has increased by over 40% in the three years since the end of 1980. Remove that sector and the typically weaker Scottish performance is once again manifest. In Mechanical Engineering, peaks and troughs coincided for Scotland and the UK though the fall in output to the trough amounted to 39% and 26% respectively. The trough in both cases was reached in early 1983 with only marginal recovery during the remainder of that year.

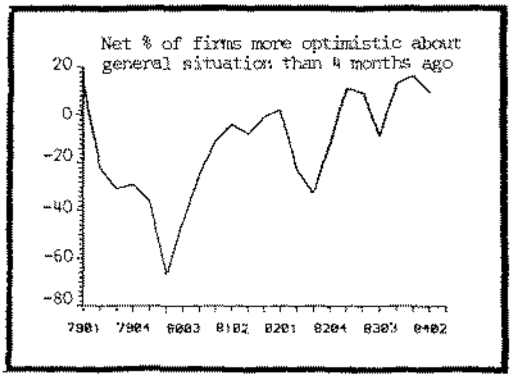
There was a similar coincidence of peaks and troughs in the Chemicals and Man-Made Fibres industry, but again output at the trough had fallen further in the Scottish case, by 23% as opposed to a UK figure of 19%. Paper, Printing and Publishing, also exhibits the familiar pattern of the trough being reached later in Scotland than in the UK as a whole. In this instance, though the contraction in output of 19% experienced by the UK industry was 2% greater than that experienced in Scotland, there was evidence of a slight recovery in UK printing and publishing output at the end of 1983, while output in Scotland was effectively stagnant.

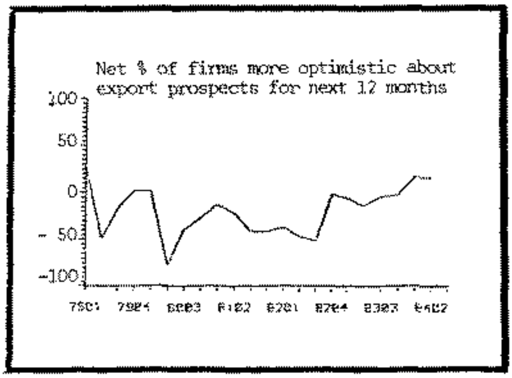
The Scottish Index of Industrial Production therefore provides little support for the official rhetoric of the past two years. In particular the data provide no evidence to suggest that Scotland's industrial sectors got off rather lightly during the recession and certainly little that Scotland was at any stage leading the UK out of recession. Indeed, given the lagging recovery documented here, the data are if anything supportive of the view that Scotland's overall position vis a vis the UK may have deteriorated in the two years to end-1983. On the overall UK recovery itself, the figures provide a rather sobering indicator of the extent to which UK non-oil industrial output still remains below its 1979 peak even though UK GDP is now above pre-recession levels.

BUSINESS SURVEYS

The July CBI Industrial Trends Survey was carried out between 29 June and 18 July, during which time the dock strike had started but not ended, and the miners' strike continued. Perhaps surprisingly, in view of the nervous state of the stock market during this period, there is little evidence that these events had any influence on the results of the CBI Survey, at least in Scotland. By and large the results, though less encouraging than those of April, confirm the continuing though modest optimism remarked in the two previous Surveys.

Optimism with respect to export prospects continues to reflect the marked recovery noted in the April Survey. A balance of +17% of respondents report a higher volume of new export orders, and a balance of +11% higher export deliveries. Higher volumes of orders and deliveries (+14% and +15% respectively) are anticipated in the next four months. The further fall in the trade-weighted value of sterling, down 2.1% from April, has no doubt improved export competitiveness, and there is some evidence that manufacturers are taking advantage of this fall to restore profit margins. A positive balance of 12% report higher export prices in the past four months, and a balance of +27% expect higher prices in the next four months.



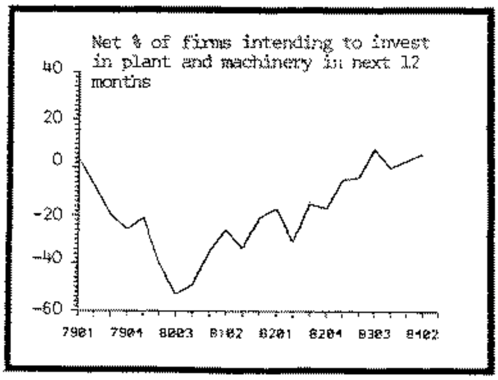


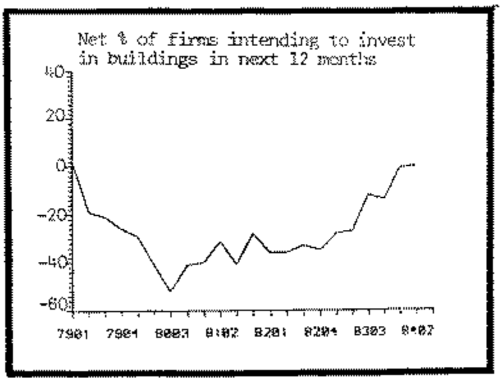
This optimism is backed by encouraging trends with respect to output, new orders and particularly exports. A somewhat meagre balance of +1% of respondents reported increases in the volume of output over the four months to July, in contrast to the balance of +19% who **expected** to increase output at the time of the April Survey, while a balance of +8% anticipate output increases in the four months from July. The balance recording an increase in output is markedly lower than that recorded in the January and April Surveys. However, a balance of +14% report a higher volume of new orders in the four months to July, and a balance of +19% expect an increase in orders in the next four months. It is worth noting that in the previous three CBI Surveys, the actual volume of new orders has exceeded expectations in each case, while the actual trend in output has exceeded expectations in two of the three cases.

A positive balance of respondents report higher stocks of raw materials and work in progress in the four months to July, though little or no change is expected over the next four months. Again however, it is worth noting that stocks of raw materials and work in progress have risen faster than anticipated in the three preceding Surveys. Stocks of finished goods have also risen in the four months to July, but a fall is anticipated in the next four months.

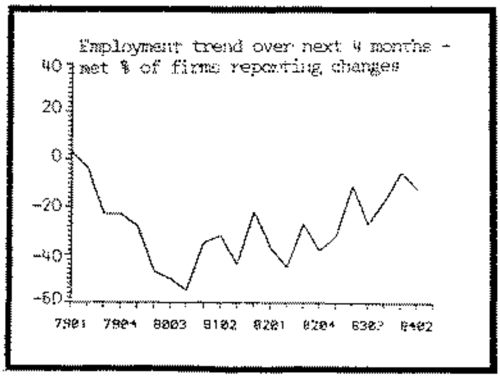
For the first time since January 1979, the proportion of Scottish respondents (20%) who propose to authorise **less** capital expenditure on buildings in the next twelve months than in the previous twelve, is balanced by the proportion who propose to authorise more (also 20%). There is also a slight increase in the balance of respondents (+6%) who propose to authorise higher spending on plant and machinery.

Though hardly indicative of an investment boom, these results are consistent with greater confidence in the general business situation and offer some encouragement to Scotland's capital goods industries.





Despite these encouraging trends, the proportion of firms working below capacity remains high (60% in July), and the overwhelming majority (83% in July) report orders or sales as the main factor limiting output growth. Though almost one in four respondents reported increased employment over the last four months, these were outnumbered by the one in three reporting a fall. This trend is expected to continue with a balance of 12% expecting numbers to fall further in the next four months. There has been a marked fall in the proportion of respondents expecting to increase employment, down from one in five in April to one in eight in July.



Within the overall Survey results summarised above there are notable variations. Small (0-199 employees) and medium (200-499 employees) firms contain much higher positive balances of respondents reporting increases in new orders, output, export deliveries and numbers employed than large (500+) firms, and a lower proportion of respondents working below capacity. Expectations with respect to capital expenditure, numbers employed and output trends also appear more buoyant in the small and medium groups. Oddly, however, a greater proportion of large firms expect an increase in new orders in the next four months.

Within the six industrial groups identified in the CBI's Scottish Survey, in all but one (Other Manufacturing) a positive balance of respondents report more optimism about the general business situation and only the **Chemicals** sector shows a negative balance with respect to export prospects. There is however considerable variation between sectors with respect to recent performance and short-term expectations. Strong performance and generally favourable expectations are most marked in the **Textiles** sector (particulary for exports), a confirmation of trends observed in earlier Surveys but with indications of some slowing down of the pace of expansion. In this sector, only 10% of respondents are working below capacity, while a balance of +44% reported higher employment in the four months to July. Net hiring is not, however, expected to continue during the third quarter.

Results in other sectors are mixed. A higher volume of orders is reported by a positive balance of respondents in **Food, Drink and Tobacco, Chemicals** and **Metals and Metal Manufacture**, and a positive balance expect a higher volume of orders in these sectors in the next four months, but expectations regarding output and employment trends are not particularly favourable. In the important **Mechanical, Instrument and Electrical Engineering** sector, a balance of respondents report falls in new orders, and unfavourable trends in output and numbers employed over the past four months, but a strong positive balance expect new orders and output (but not employment) to rise in the next four months.

The on-balance favourable results of the CBI Survey are generally supported by those of the Glasgow Chamber of Commerce Survey for the quarter ending June 1984. A positive balance of respondents to this survey report higher orders and sales in both domestic and export markets, and the Chamber also reports positive balances with respect to employment trends (though unlike the CBI the Chamber of Commerce Survey data are not weighted to take account of the size of respondent firms). With this caveat in mind, the results can be construed as a mild weakening of the climate of business confidence in the West of Scotland over the last quarter.

AGRICULTURE

Official estimates suggest that the gross output of agriculture in Scotland in 1983 was £1,242 million, an increase of about 1.5% (in current prices) over the previous year, but a considerable fall in real terms. In 1983 the total labour force in agriculture dropped by 1,124 or 3%. Slight increases were recorded in the numbers of dairy cows (3%) and sheep (1%) while store cattle numbers remained about the same. Beef output increased 6.6% in volume and 9.5% in value to £316 million. Pig numbers, however, fell by 8% between April 1983 and April 1984. There was a general fall in crop yields, with wheat and winter barley expanding their acreage at the expense of spring barley and oats. As the bright yellow patches in the countryside show, oilseed rape is becoming a significant crop in Scotland.

The new milk quota arrangements came into effect on 24 July. At the same time the Government announced a "redundancy payments" scheme to buy out the quotas of all those who wish to give up milk production. The scheme is thought to be worth about £650 per cow. It remains to be seen how many of Scotland's 3,051 registered milk producers will avail themselves of the opportunity to quit. Forty-one went out of business between 1983 and 1984, with a further drop in the number of producer-retailers from 244 to 96, as a result of legislation prohibiting retail sale of unpasteurised milk.

As usual, there are differing views on the severity of the financial pressures on dairy farmers in Scotland. A survey of the accounts of a sample of 83 such farms carried out by the West of Scotland College of Agriculture concludes that "although dairy farmers face further financial pressures there must be optimism that most will survive the next few years, provided that it is realised that survival is their main aim". On the other hand, the NFUS claim "a net income level of about £10,000 on specialist dairy farms in Scotland in the year 1982/83" and that these "incomes have fallen by 30% to 50% in the last twelve to fifteen months". Since net income is calculated before deduction of interest on bank loans and represents the return to farmer and spouse for both manual and managerial labour, as well as the return on tenant capital invested (livestock and equipment), a considerable exodus is to be expected if these latter claims are even approximately correct.

On 23 July the Scottish Agriculture Wages Board confirmed an increase of £4 per week in the minimum wage for all full-time weekly paid workers with effect from 3 September 1984. This means the new minimum wage for a general farm worker is £83.20.

1984 is seen by many farmers as a watershed year for the industry in the sense that the level of public subsidy is likely to have reached its maximum. For those looking for diversification from traditional mainstream agricultural activities, a successful example is the co-operative venture involving 100 farmers in Fife, Lothians and the Borders who grow and process vegetables, marketing them under the name of Scotfresh. The group started in 1977, following the closure of Scotland's only sugar beet processing plant at Cupar. This year their turnover is estimated to exceed £3 million.

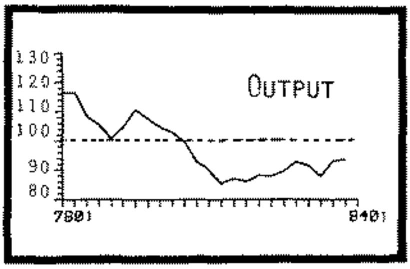
FISHING

During 1983, fishermen enjoyed higher average prices relative to 1982, raising the total value of the year's catch by 14% to £170.2m. The volume of landings during the year was virtually unchanged at 499,100 tonnes, with offsetting changes in the landings of the main species. Up to June of this year, however, there has been a slight decline in average prices, so that while total landings (provisional figures) at 201,200 tonnes were 17.5% higher than in the corresponding period of 1983, the value of landings rose by only 15% to £85.4m. This can be attributed to the declining scarcity value of the pelagic species - with landings nearly five times those of 1983, prices per tonne have dropped by an average 36%. Landings of white fish rose in quantity by 3% compared with the levels of the first half of 1983, and shellfish landings increased by 9% in the same period. Since the introduction of a promotion campaign to reintroduce people to the delights of herring, sales are reported to be good, and the campaign is to continue.

Several measures have been taken to reduce and revise quotas in an effort to conserve supplies in certain waters. A reduction in weekly quotas of haddock was announced for the North and Norwegian Seas, to ensure that the fishery could be opened for a full year; lower landings from the west have made possible some compensation in the form of increased haddock quotas for the West of Scotland and Faroes Grounds. Fishermen lost access to both herring and mackerel in the Clyde fishery from 10 August, less than three months after opening, to avoid overfishing. There have since been amendments to herring quotas in other areas: a reduction of about 10% in the Northern and Central North Sea areas, and an increase of around 10% in the West of Scotland area, the latter designed to increase the uptake of the UK's quota in that section.

The first of five rounds of grants from the European Agriculture Guidance and Guarantee Fund (EAGGF) has been announced. Grants have been allocated for the construction, purchase or modernisation of fishing vessels, although it is not intended that capacity levels should be raised, and to encourage fish-farming development. Sixty-five projects have been selected for assistance in the UK and of the total aid of £3.1m, Scotland is to receive £2.6m, covering 35 projects. The disproportionate share accruing to Scotland, with over 80% destined for vessel construction, reflects the need to modernise the fleet.

CONSTRUCTION



The value of orders received by contractors in Scotland in the first quarter of this year was £338m. This represents a fall from the level of the previous three months, but an increase of 17% in nominal terms over the same period in 1983. Breaking down the quarterly total, orders placed by the private sector were lower than a year ago, while the reverse was true of the public sector. An unprecedented level of orders for road and harbour work of £71m boosted public orders to £204m in the quarter. Harbour contracts were relatively good, but roads accounted for most of the money - five significant jobs were awarded during the period, which with a sixth large contract contributed £37m to the total. Elsewhere in the public sector, orders improved relative to the first three months of 1983 for work on schools and colleges, health, water and sewerage, with a slight improvement in housing contracts. Orders in the transport and energy supply sectors, and for offices, garages and other buildings proved disappointing.

In the private sector, orders for commercial work were considerably higher than in the first quarter of 1983, with contracts for offices and shops particularly improved. However, industrial work, which includes electricity, gas, factories and oil contracts, totalled £25m, an increase on the previous quarter but around 45% lower than the same quarter of 1983. Although capital investment by companies is expected to be rescheduled as a result of changes in capital allowances, immediate prospects for industrial construction in Scotland do not yet seem to be brighter. The July CBI Industrial Trends Survey suggested that there would be some growth in plant and machinery expenditure over the next year, but was less optimistic about the volume of building work. The dominant reason given for expected authorisations of capital expenditure was to increase efficiency (63% of respondents cited this) as opposed to expanding capacity (18%) which would have raised construction activity.

Buildings again dominated contracts awarded in the last three months in Scotland. There has been a plethora of relatively small orders, with few surpassing £2m. One of the larger awards, worth £3.7m, has been made to the M J Gleeson Group for the construction of the Inland Revenue computer centre at Livingston. Also at Livingston, a new hotel, with over 120 bedrooms, is to be built at a cost of more than £2m by Walker Contracts, based in the town. Wimpey's Edinburgh office has been awarded the £1.3m contract for an extension to the Young Offenders' Institution at Polmont, near Falkirk. A division of Balfour Beatty Construction has been awarded a £1m tenement rehabilitation contract. D & J Ogilvie (Builders) of Stirling were awarded contracts worth £2.5m for varied work, including a new police station at Bannockburn. G Percy Trentham, of Broxburn, recently won three contracts worth almost £4m which included the construction of a fire station in Edinburgh.

A joint venture company, Premier Homes, has been formed to develop a site which is part of the £6m Tayport Harbour development project. The company will be involved in the first phase of the program, which is the construction of a number of houses, subject to planning consent. Other plans for the Harbour site include flats, sheltered housing, a boatyard and yacht chandlery, restaurant and small industrial factory units.

Plans for developing the former Parkhead Forge site and adjoining land have been submitted to Glasgow District Council. The site owners, Realmoak of London, intend to construct a shopping and leisure centre at a cost of £25m, creating as many as 1,000 jobs over the construction period. The proposal will be augmented by further plans for housing and a new railway station to be constructed on an adjacent site.

The Scottish Office has announced that the construction of a bridge over the Dornoch Firth, at an estimated cost in excess of £17m, will begin in 1986. The crossing will be linked with the A9, and will cut the journey north by about 32km. Another future project, but with a somewhat longer lead time is the new court-house complex in Edinburgh. The chosen site at Chambers Street is to be vacated by Heriot-Watt University in 1989. The estimated cost of the new building is £10.5m.

National Housebuilding Council figures show private housing starts in Scotland at 4,200 in the second quarter of this year, bringing Scotland's share in the Great Britain total for the first half of the year to 9%, the highest since 1978. The second quarter figure was 17% higher than the first and 7.5% above even the high level of the corresponding quarter of 1983. For Great Britain, there was an identical increase over the preceding quarter, but a fall of 1.3% on the corresponding period of 1983. Thus, for the first half of this year the Scottish sector sustained its strong performance, while the British one appears to have slipped a little.

The number of newly completed private houses in the first half of 1984 exceeded that of the corresponding period of 1983 in both Scotland and in Great Britain. Dwelling completions from April to June in Scotland totalled 3,200, 23% higher than twelve months previously, while there was an increase of 8% in Britain.

There are however a number of indications of a likely slowdown in private housebuilding during the second half of this year. Firstly, starts are likely to be curtailed by the July mortgage rate rises of 2.25% - 2.75%, which brought home loan rates to their highest levels since the 1979-1981 period. However, if the jump in rates is expected by builders and house purchasers to be short-lived, the effect on new house construction may not be significant. More telling however is the fact that new private housebuilding contracts amounted to £57.6m in the first quarter, characteristic of the time of year, but still slightly below the corresponding level of 1983. With new orders now having fallen in three consecutive quarters, a reduction in the volume of private housebuilding activity in Scotland seems inevitable.

House prices in Scotland continue to rise strongly, but some levelling off is to be expected in the second half of the year when the housing market is traditionally less busy. The Nationwide Building Society report that in the three months to June prices in Scotland (based on loan approvals by the society) rose by 6%, with the annual rate of increase to June constant at 10%. The annual rate of increase for the UK was higher at 15%, but this was due largely to the strength of house prices in the south-east of England. The average house price in Scotland in the second quarter was £29,830, compared to £27,000 last year, an increase of 10.5%, whereas modern properties show an above-average increase of 12%. The Halifax Society's house price index confirms the strength of Scottish prices. In the second quarter, prices of new houses recovered strongly to bring the annual change in prices up to 8.5%.

Information available for 1983 shows the extent of the decline in public sector housebuilding in that year. Completions were down, relative to 1982, by around 3%, but the more dramatic statistic is the 41% slump in public housing starts to 3,803 for the year. At this level, the public sector now plays a very minor role in the provision of new houses in Scotland. Combining the above figure for the public sector with numbers recorded by the NHBC, total starts in Scotland rose in 1983 by just over 3%, entirely as a result of the strength of the private sector. Its predominance, together with ongoing sales of council houses, will increase the proportion of owner-occupier households in Scotland, which at 35% in 1981 was well below the British average of almost 56%.

Sales to tenants of public housing proceeded at an average rate of over 4,000 a quarter last year notwithstanding delays in the processing of applications. Nonetheless, total sales to date represent a very small fraction of the public authority stock, though by the end of last year over 10% of New Town, and nearly 8% of SSHA housing had been sold. In July of this year, the Tenants' Rights Amendment Act introduced a higher rate of discount for tenants of more than 20 years' standing, and relaxed the qualifying period from three to two years in an effort to increase purchase rates. However, one clear factor which has emerged, and which will probably hold firm against future incentives, is the distinct unpopularity of certain properties in the housing stock. Of sales completed by the end of last year, 11.5% were of flats and maisonettes and 88.5% were of houses, yet the former properties comprised almost half of the total stock recorded at the 1981 census.

UK Energy Consumption by Primary Fuel*

	million tonnes coal equivalent					
Fuel	**May 83**	**(%)**	**March 84**	**(%)**	**May 84**	**(%)**
Coal	110.0	(35.6)	106.0	(34.5)	65.1	(21.5)
Petroleum	106.6	(34.5)	105.8	(34.5)	138.5	(45.8)
Natural Gas	69.8	(22.6)	76.5	(24.9)	72.6	(24.0)
Nuclear Electricity	19.8	(6.4)	16.4	(5.3)	24.4	(8.1)
Hydro Electricity	2.7	(0.9)	2.2	(0.7)	2.0	(0.7)
Totals	308.9	(100)	306.9	(100)	302.6	(100)

*annual rates, seasonally and temperature adjusted

Source: Energy Trends

ENERGY: OIL AND GAS

UK crude oil production in the three months to May 1984 totalled 30.2m tonnes, 11.4% higher than in the same period in 1983. 11.7m tonnes of this production went to domestic refineries with the remainder being exported. In the same quarter, indigenous natural gas supplied 3.6 billion therms to the public system, 4.4% less than in the comparable 1983 period.

UK use of oil and gas is beginning to reflect the effects of the miners' strike, especially in the electricity generating industry. Electricity generation used 1.66m tonnes of oil in May 1984 compared to

0.42m tonnes during the same month in 1983. Gas sales to power stations in the first quarter of 1984 were 1m therms higher than in the first quarter of 1983. The miners' dispute has provoked dramatic changes in the primary fuel composition of UK energy consumption, as shown in the table below. The changes are unlikely to have been as marked in Scotland given the greater importance of hydro and nuclear stations in the Scottish electricity industry.

Increased domestic oil consumption is reflected in lower net exports of oil and a marked deterioration of the visible trade balance during the second quarter. In the longer run it will also be reflected in marginally higher electricity prices with consequent effects on inflation.

Further offshore development programmes were approved by the Department of Energy in recent months. Hamilton Bros are to spend £315m developing the Esmond complex in the southern North Sea. These three gas fields will produce some 200m cubic feet per day with production scheduled to start in June 1985. Amoco are to install an £80m platform in the Leman field for additional gas recovery. The platform will have a capacity of 300m cubic feet per day and should begin production in October 1985.

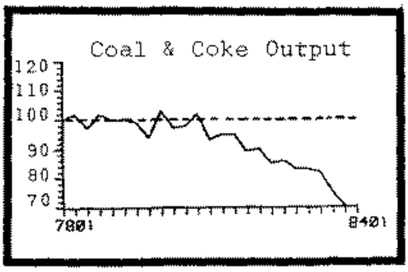
In line with other commentators, Grampian Regional Council take an optimistic view of future prospects for the North Sea. The Council suggests that 83 new oil and gas fields will be developed by the year 2001 and that offshore-related employment will not peak until 1996, with some 15,000 more jobs than present levels. The Council believe that the enhanced development prospects are largely attributable to beneficial tax changes in the 1983 Budget; however future new fields are likely to have much smaller reserves than 'giants' such as Forties or Brent.

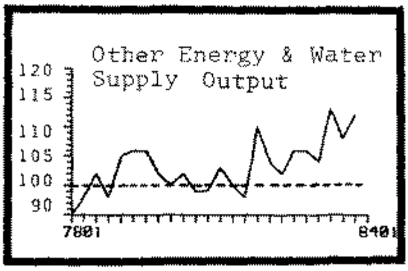
BNOC have come under pressure from the oil companies to reduce the price of UK crude for third quarter term contracts. BNOC wish to retain a $30 per barrel reference price for Brent oil, but continuing excess supply has seen Brent crude trade as low as $28 in spot markets during recent weeks. Most of the oil companies have apparently committed themselves to third quarter contracts at $30, but have insisted on renegotiation options should spot prices remain significantly below this. Britain is thus effectively in the curious position of shoring up the OPEC cartel. It is not at all obvious that this is necessarily in the national interest.

The government's sale of shares in Enterprise Oil, a company formed to acquire the North Sea assets of British Gas, ran into difficulties in late June. Firstly, as had happened previously in the Britoil launch, the sale coincided with falling oil prices which reduced its attraction to potential investors. Secondly, Energy Secretary Peter Walker vetoed an application from Rio Tinto-Zinc (RTZ) for 49% of the shares. The upshot was that the underwriters were left with 73% of the issue unsold. Ironically, within a week RTZ were able to announce additional share purchases which will give them 29.9% of Enterprise equity without any dissent from the Department of Energy.

ENERGY: COAL, ELECTRICITY AND WATER

The index of production for Scotland's total energy sector stood at 102.5 in the fourth quarter of 1983. This is marginally up on the third quarter figure which has been revised down from 101.3 to 101.0. The corresponding UK index rose by 2.1 points to 118.9 and, whereas over the year as a whole the Scottish index rose by 1.9%, the UK index increased by 5.4%. This picture is repeated in the disaggregated indices which make up the total energy sector. Production of coal and coke in Scotland fell by 10% between 1982 and 1983 (bringing the index down to 70), or at more than double the rate of contraction (4%) in the UK. One of the principal reasons for the rapid fall in the coal and coke index in the last two quarters of 1983 was the national overtime ban which preceded the current strike. The index for other energy and water supply continued to grow in the fourth quarter (from 108 to 112) but again lags well behind the UK as a whole where the index stood at 126 in Q4 1980.



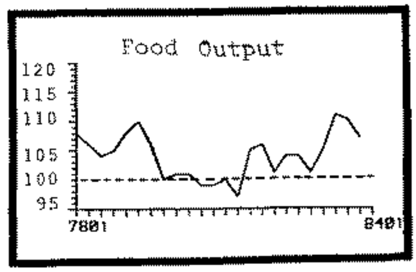


The miners' strike continues to dominate the media. At the time of writing (the twenty-fourth week of the strike) compromise does not look imminent. One reason for this is that, as remarked in the last **Commentary**, the "harmful" effects of the miners' action have been slow to emerge while the money costs are spread over the whole tax-paying population. The first segment of the population, apart from the miners themselves, to directly experience the financial impact of the dispute may well be the CEGB's customers. The Central Electricity Generating Board, in an effort to conserve its coal stocks for the "big burn" periods of October, November, December and January, has attempted to switch generation to other energy sources and in particular, oil and nuclear fuels (See: Oil & Gas above). By far the largest shift has been to oil-fired generation (including the importation of "Scottish" electricity generated by the Inverkip complex) which is more expensive than coal power. The resulting tariff increase is unlikely, at least initially, to apply to Scotland.

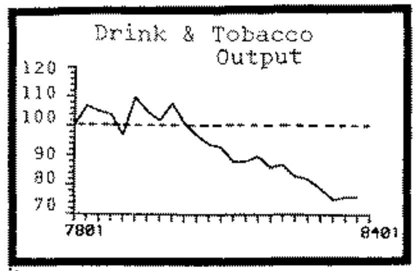
Around 40% of SSEB output is generated from coal-fired plants (zero in the Hydro Board area), nuclear power accounts for a further 40% and the Boddam natural gas liquids plant supplies the remaining 20%. The dispute has merely accelerated the SSEB's diversification away from coal. In 1980 coal burn in the SSEB area was 8m tonnes whereas by 1983 it had fallen to 4.6m tonnes, representing only 5.6% of total coal consumption by UK power stations during that year.

One factor which has prolonged the strike is the NUM's revised negotiating position. The principal reason for the dispute, cited at the outset, was the Coal Board's plans to close immediately five "uneconomic" pits. The basis of the dispute has now broadened, with the NUM making clear at their extraordinary delegate conference in mid-July that, as well as pit closures, questions on the expansion of production, the four-day week, retirement at 55 and the area incentive bonus schemes also require resolution. It is therefore not surprising that the union rejected the NCB's effective capitulation not merely on the closure of the five pits in question, but on closures in general. While the NUM cite the Board's refusal to excise the phrase "cannot be beneficially developed" from NCB guidelines on how and when a pit with unexhausted reserves can be closed as the reason for rejecting the proferred compromise, Mr Scargill has stated that there will be no agreement until some of the wider issues mentioned above have been resolved to the union's satisfaction.

Given this state of affairs only two things seem likely to break the stalemate. First, the miners may start to drift back to work in increasing numbers through basic necessity or frustration with the conduct of the dispute. This drift may become a flood if they suspect that their original demands have been conceded by the NCB but that the union leadership have broadened the dispute both to cover issues which can be resolved over a longer period, and to embrace broader political goals only tenuously related to the coal industry. Secondly, the government may intervene. One possible course of action in the latter category would be to announce a revision of the **Plan for Coal** within the context of a unified UK energy policy. This revision would be conditional on a full return to work and a moratorium on the NCB's current plans for pit closures and rationalisation. The danger in this proposal is that the resulting Plan for Coal Mk.2 would fail to address the fundamental fact that at present coal can be imported at costs well below those of the majority of existing NCB pits. Realistically, neither of these outcomes looks particularly likely at present. The most probable seems to be a protracted war of attrition which may institutionalise the use of intimidation and violence in large scale industrial disputes and end in a fragile, short-term compromise.



In the Scottish coalfield there have been recent NCB claims that four pits are in danger of closure due to structural damage. The four are Killoch and Barony in Ayrshire, Frances in Fife and Monktonhall near Edinburgh, closure of which would lead to 4,750 job losses from a Scottish total of 14,000 jobs. So far, the only firm notice of closure is of two faces at the geologically difficult Castlehill pit, with the loss of 600 jobs.



Strangely, although Castlehill was included in last year's NCB list of the thirty largest loss makers, the Board blamed closure of the faces on lack of safety cover at a **profitable** pit!

The annual Coal Board report for 1983-1984 showed that the industry has lost £2,000m in the last four years (£875m last year alone). Scotland ranked as the second biggest loss-maker, losing £13.90 per tonne of coal produced (the UK average being £6.60). This contrasts markedly with two other recently published annual reports from industries in the energy sector. The SSEB and Hydro Board accounts for 1983-1984 showed profits of £16m and £12.2m respectively.

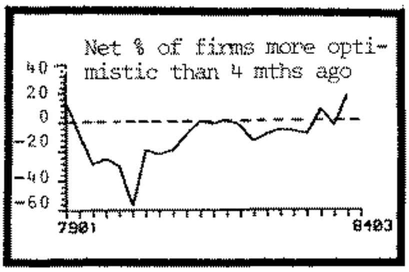
FOOD, DRINK AND TOBACCO

Like their counterparts in the UK, drink and tobacco industries in Scotland seem to have reached the trough of the recession during the second quarter of 1983: the latest estimates of the Scottish index of industrial production, for the fourth quarter of last year, suggest that the decline in output has been halted.

The output performance of the food industries has been very different from that of drink and tobacco. Starting from a base of 100 in 1980, output of the food sector reached a peak of 111 in the second quarter of 1983, levelled off in the third quarter at 110 and fell to 107 in the fourth quarter. Whether this last figure is a "hiccup" remains to be seen, but the industry has still performed much better than manufacturing industry as a whole since 1980, the latter index standing at only 94.2 in the last quarter of 1983.

Food, Drink and Tobacco respondents to the CBI's July survey in Scotland are on balance more optimistic about the general outlook than they were four months previously. No significant change in output volume is expected over the next four months, and the prospective employment trend is downwards. This survey, of course, does not cover new entrants to the market.

The new management team at Scottish and Newcastle Breweries has produced impressive results for the year to April last. Although turnover was only 8% higher than in the previous year, profits increased by 34% to £55m. It is anticipated that beer sales



this year will be significantly affected by the miners' strike. Since they called off their proposed purchase of Cameron Breweries, with its 460 pubs and 80 off-licences in Yorkshire and North East England, following a referral of the deal to the Monopolies Commission, an alternative acquisition by Scottish and Newcastle seems on the cards. Scottish and Newcastle have themselves frequently been mentioned as a possible takeover target, but the recent results make such a fate less likely.

Another Scottish household name, the James Finlay Corporation, which owns large tea-plantations in Bangladesh and Kenya, announced pre-tax profits of £27.7 million for 1983. The profit contribution from the plantations tripled from £5.7 million in 1982 to £17.3 million in 1983, as a direct result of the rise in world tea prices. This in turn appears to be due to increasing demand for tea in South Asiå, the Middle East and the Soviet Union. Despite diversification into financial services, energy and other activities, the production and merchanting of tea continues to be the company's major activity.

On a smaller scale, some of the traditional Scottish food producers are having mixed fortunes. After an excellent year in 1983, which saw turnover rise to £3.2 million and profits to £173,000, John H Lees, the Coatbridge confectionery manufacturer, is finding the costs of its raw coconut rising, partly as a result of the fall in the external value of the pound, and partly because of political unrest and poor harvests in supplying countries. A G Barr, the Glasgow soft-drinks manufacturer has reached an agreement with Corona under which the latter will market Irn-Bru and Tizer in the South of England and South Wales, parts hitherto unreached by these brands. A slaughterhouse is to be established on the Isle of Barra, which will avoid the expensive costs of transporting live animals to the mainland and will allow local consumers, including hotels, to buy fresh home-produced meat. A throughput of 20 lambs and 2 fat cattle per week is anticipated.

Finally, Scotland's position as Western Europe's largest exporter of raspberries, (about 80% of all UK raspberries are grown in Angus and Perthshire,)is threatened by a flood of cut-price raspberries from Poland and other Eastern European countries into the EEC. Ironically, raspberry growing is one of the few areas of food production which receives no direct financial support from public funds.

WHISKY

The Scotch whisky industry is at present enduring the traditionally quiet third quarter of the year in the knowledge that, if economic factors remain as they are now, the last quarter could bring a strong recovery in the US market. The current dollar-sterling exchange rate should make imports from the UK particularly attractive to American consumers. It will be interesting to see whether the whisky firms can take advantage of this.

During 1983 some industry experts were forecasting an upturn in whisky fortunes during 1984. Though the volume of sales in the UK spirit market increased by 2.8% in 1983, this was due mainly to increased sales of gin, vodka and brandy. Whisky sales fell back by 0.6%. In the last **Commentary** it was reported that industry forecasts had been revised and that 1985 looked like being the earliest recovery prospect. This latter prediction looks optimistic if current transitory factors, such as the overvaluation of the dollar, are discounted.

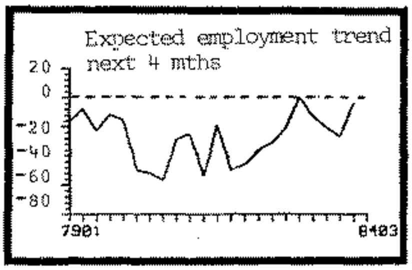
Scotch whisky exports in the first quarter of 1984 were down 8.6% on the corresponding quarter of the previous year. This aggregate figure masks diverse movements in major world markets, with exports to the US up by 0.5% whereas those to Japan were down by 1.6%. The picture was even more varied in European and South American markets. Exports to France and Argentina were down but those to Denmark, Greece, Spain and Mexico were all up. While dollar interest rates remain at present levels with a consequent exacerbation of the international debt burden, the lucrative South American market is likely to continue severely depressed.

A topical illustration of the impact of external market conditions on the Scotch whisky industry is provided by Distillers recent annual report. With export markets accounting for over 90% of turnover the company's pre-tax profits for the year ended March 1984 were down by £17.7m to £191.6m. Movements in the dollar-sterling exchange rate generated a £14m windfall profit from US dealings but problems in Latin American markets resulted in a fall of £30m in profits. These results were followed by the announcement of the closure in 1985 of the company's VAT 69 (South Queensferry) and White Horse (Glasgow) bottling and blending plants. Job losses will amount to 715 in total. The closures are noteworthy as DCL have hitherto shed jobs only from their distilling activities.

ENGINEERING AND ALLIED INDUSTRIES

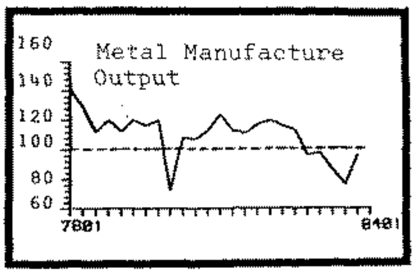
The output of this group of industries continued to increase slowly throughout 1983. Nonetheless, output in the final quarter of last year was actually below that of twelve months previously, owing to a very sharp fall between the last quarter of 1982 and the first quarter of the succeeding year. The expansion in output during the course of 1983 was almost entirely due to increased production of electrical and instrument engineering, which was 5% higher than in 1982. Output in the other components of engineering and allied industries was either unchanged at the 1982 level (transport equipment), or markedly lower (mechanical engineering, metal goods).

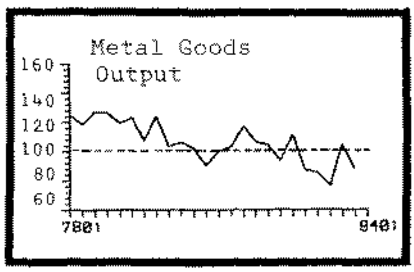
Quarterly data throughout 1983 show steady growth in electrical and instrument engineering, a mild recovery in mechanical engineering in the latter half of the year, and extremely erratic quarter-to-quarter changes in the output of metal goods and transport equipment.



The only information at present available on trends in the industry during the current year is from the CBI survey. Little change in sentiment in the industry is evident since last year. Optimism, both about prospects in general and export prospects in particular remains at much the same level as a year ago. The one significant change is in employment prospects, where the Survey provides evidence of net hiring, evidence which is corroborated at national level by the Dept. of Employment. Numbers employed in some sectors of the British engineering industry increased during the year to March 1984. The CBI survey suggests that similar net hiring may be taking place in parts of Scottish engineering.

METAL INDUSTRIES





The latest Index of Production shows that levels of output in the metal manufacture and metal goods industries in Scotland during the last quarter of 1983 were similar to those for the last quarter of 1982. However, while the individual industries exhibited different quarterly behaviour, output levels for both over the whole of 1983 were quite clearly below those for 1982.

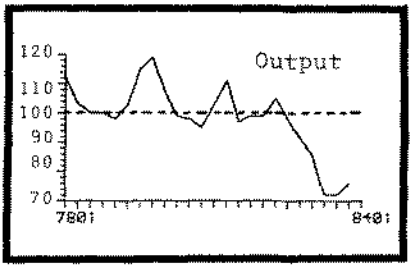
The recovery of output in the metal trades in the last quarter of 1983 is consistent with the July CBI Survey evidence of an increase in numbers employed in this sector. Interestingly, the CBI Survey also suggests that increased employment and higher capacity utilisation continued into 1984. Respondents to the Survey showed a small measure of improved optimism about the general economic situation from four months earlier but, more disturbingly, there has been a deterioration in optimism about export prospects in the coming year.

Despite the miners' attempts to block coal, coke and ore deliveries to steelworks, British Steel has been mainly successful over the past few months in maintaining supplies. This has allowed production to return to the levels recorded before the miners' dispute began. Much publicity has been given to the supplies going into Ravenscraig by road. Although the coal, rail and steel unions had agreed to permit 18,000 tonnes of coal per week to enter Ravenscraig by rail, the miners withdrew from the agreement and railworkers have refused to cross picket lines with supplies of coke and coal. The coal blockade was followed by a blockade of ore supplies. Subsequently, the lorry convoys into Ravenscraig appear to have more than maintained supplies of iron ore to Ravenscraig where stocks are thought to be in excess of six months' supply. However, in support of the miners' attempt to reduce steel production, dockers at the Hunterston terminal have banned coal imports for Ravenscraig. The Liberian-registered vessel Ostia has been waiting offshore to unload 95,000 tonnes of coking coal which, BSC argues, Ravenscraig requires urgently. The TGWU has threatened national strike action in the docks if the Ostia is unloaded by workers who are not TGWU members. As at mid-August BSC, the TGWU and the National Dock Labour Board have not resolved the dispute.

The Government's view on the future of the steel industry, which will greatly shape the nature of the as yet unpublished corporate strategy, were repeated in July. Mr John Butcher, Junior Trade and Industry Minister confirmed that the Government is seeking to return the industry to commercial viability with a view to subsequent privatisation. These views were evident in BSC's recently published annual accounts which showed a reduction of more than 50% in losses to £177m for the financial year 1983/84. The Annual Report also suggests that the BSC Chairman, Mr Robert Haslam, is still inclined to close a strip mill, the candidates for closure presumably being Ravenscraig and Llanwern.

In June North British Steel announced the closure of its Bathgate foundry which produces light castings with the loss of 159 jobs. The company, which has incurred heavy losses, intended to switch production and 140 jobs to its nearby Armadale foundry in an attempt to consolidate its activities and turn that foundry into a viable unit. On 15 August, however, following a consultants' report, the Bathgate plant was reprieved, but only at the cost of cutbacks at both plants. The job losses involved, amounting to 188 between the two plants, are now greater than originally envisaged. This development compounds the problems of the Bathgate area where British Leyland, an important metal-user, announced in May the loss of 1800 jobs over the next two years with the phased closure of its truck and engine plant.

MECHANICAL ENGINEERING



The trough of the output cycle in Scottish mechanical engineering appears to have occurred in mid-1983. Output in the fourth quarter of last year increased by 5%. Nonetheless the volume of activity in this sector is still almost a quarter below 1980 levels and over a third down on the pre-recession peak.

The quarter was largely dominated by developments in the offshore fabrication market. Inevitably, given the current level of competition in this sector, good news for one yard was a setback for others. Thus although RGC Offshore Limited of Methil landed a £30 million contract from Total Oil Marine to build a platform for their Alwyn B field, other yards face a much more uncertain future.

Over the last three years the Methil yard has handled £120 million worth of offshore contracts and last year realised a £6.5m profit on a turnover of £63.5m. British Steel, owners of the yard, have sold it to Trafalgar House, who also recently acquired the Scott-Lithgow yard at Greenock. The takeover has caused considerable disappointment to both North Sea Assets and the SDA, who control 5% and 4% of RGC's equity respectively. Both minority shareholders were keen to put together a consortium to buy the yard when British Steel decided to sell. Indeed both appear to have believed that they had a 'first refusal' commitment from British Steel. The acquisition places Trafalgar House in a uniquely powerful position in the provision of oil and gas offshore hardware. In addition to the Scott-Lithgow facility, it also owns Cleveland Offshore on the River Tees.

RGC's performance is not typical of the industry. Highland Fabricators of Nigg Bay were also bidding for the Total contract. Their last order, the hull for Conoco's tension leg platform, was floated out in early May. It was over a year late and its completion left the yard without an order. At one point in the Conoco construction, 5,000 people were working at Nigg Bay. The permanent corps amounted to between 1,200 and 1,500 workers, but this was run down to 200 shortly after completion of the last order. However, it is understood in the industry that the company is bidding for four new contracts.

There was mixed news during the quarter for Lewis Offshore's fabrication yard at Arnish Point, Stornoway. Following completion of the contract for Hamilton Brothers' Esland field, 75 men were paid off. However, the securing of £6 million worth of orders in July means that at least some of the 75 men will once again be taken on. The contracts mean that the Lewis yard has enough work on hand to see it through until 1987.

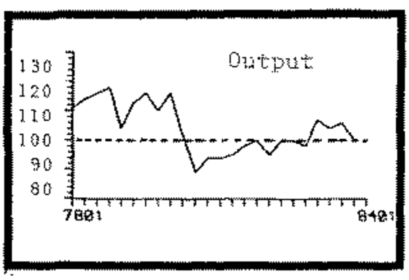
There was good news for both Scott-Lithgow, so recently purchased by Trafalgar House, and the UIE yard at Clydebank. According to Mr Nigel Broackes, Chairman of Trafalgar House, Scott-Lithgow can expect a 'sizeable chunk' of the £2 to £3 billion worth of orders for oil rigs and platforms which are placed annually. He expects Scott-Lithgow to break even this year and make a profit in 1986. Fears that the UIE oil rig yard at Clydebank, which employs 500 full-time and 200 part-time staff, was in danger following the June bankruptcy of its French parent company AMREP have been allayed. The giant French construction group, Buoygues, has confirmed that it will be taking over the yard.

Elsewhere in the much-troubled mechanical engineering industry, Anderson-Strathclyde's pre-tax profits fell from £14.5 million to just £1 million despite a rise in turnover from £115 million to £118 million. The major factors behind the profit slump were the cut in orders by the NCB for spare parts, and the company's purchase of a 51% stake in the American mining group, National Mine Service at a cost of £30 million. The new acquisition subsequently made an operating loss of £2.9 million. Another element in Anderson Strathclyde's profit shortfall was redundancy payments costing £1.8 million at Motherwell and Glenrothes.

ELECTRICAL AND INSTRUMENT ENGINEERING

Total British output of electrical and instrument engineering increased by 2% in the three months to April. The increase was concentrated in the electrical subsector. However, instrument engineering fared less well; production fell by 0.8% on the previous quarter. Moreover, imports of instrument engineeering products exceeded exports for the first time since 1979. Instrument engineering output in 1983 was 1% less than in 1982. This represents a 6% drop in production since 1980.

Industrial production data for Scotland are at present available only to the end of last year. The underlying trend over the year continued to be strongly upward, with the volume of output during the fourth quarter some 14% greater than in the corresponding quarter of 1982. For the year as a whole, however, output was only 5% higher than the preceding year, reflecting a marked fall in production during the first quarter of 1983..



The last quarter continued to demonstrate Scotland's strength in high technology. Moreover, the SDA has indicated that further overseas investments of at least £30 million are expected before the end of the year. This could create 1000 jobs, mostly in advanced technology industries. This expected investment apart, other encouraging events of the last quarter include the official opening of Mitsubishi's video recorder factory at Livingston where 200,000 per annum will be produced. By the end of 1984, the plant will employ about 250 personnel.

Digital Equipment have announced that its factory at Ayr is to be converted into a major high volume manufacturing plant for personal computers and a VLSI testing centre. The initial investment will be worth up to £15 million and add 200 new jobs to the existing labour force of 570. It will also involve substantial retraining of the current labour force.

Prestwick Circuits are to undertake a major expansion programme at both Irvine and Ayr which will gain about 140 and 60 additional jobs respectively. The Irvine factory will have its production area increased by over 200%. It incorporates a "flow-line" production concept for the volume manufacture of printed circuit boards which is unique in Europe.

It is mooted in the industry that an American corporation has short-listed Cumbernauld as a site for a factory which will manufacture semi-conductors. Up to 3,000 jobs are thought to be involved. A decision is expected soon.

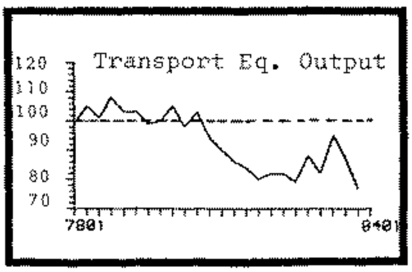
Ferranti, the weapons and electronics specialists who have a substantial Scottish base, recorded an impressive profits jump for the year ended 31 March. Pre-tax earnings rose from £31.5 million to £38.8 million on a turnover increase from £158 million to £198 million.

Harris Systems Limited, the Slough based subsidiary of the Harris Corporation, which manufactures communications and information processing equipment, is to invest £3.6 million in Irvine. The new plant, which will initially be used to manufacture the Harris 400/1200 'private branch exchanges' for the telecommunications industry, will employ 100 by 1986. At a later date production will be extended to include final assembly of word processing equipment for other divisions within the Harris Group.

Finally, on a less happy note, Future Technology Systems of Beith, manufacturers of micro-prococessor based computer systems, has issued redundancy notices to 37 or its 167 strong workforce. The layoffs follow a major restructuring of the company's finances. Many of FTS's financial backers were reportedly unhappy with financial management practices within the company and indeed Clydesdale Bank were alleged to have threatened to call in loans unless restructuring was forthcoming. As part of the new deal Sir Monty Finniston, former Chairman of British Steel, and Chairman of FTS, is to become more actively involved in the running of the company. As part of this arrangement he has taken on the role of Chief Executive.

TRANSPORT EQUIPMENT

Production of transport equipment in Scotland fell to a new low in the fourth quarter of 1983. The index of industrial production stood at 77, an 11% fall on the previous quarter's figure. The degree of movement (both upward and downward) in this index was mentioned in the last **Commentary** and this most recent figure continues the erratic pattern evident since the third quarter of 1982. The UK index displayed no fluctuation whatsoever in the final quarter of 1983 - remaining at 90 for the third successive quarter. The fact that the high degree of variability demonstrated in the Scottish index is not reflected at all in the corresponding UK measure is strange and makes the value of the index as an indicator of economic activity rather problematic.



Publication of British Shipbuilders Annual Report disclosed that the corporation lost £161m in the financial year to 31 March 1984. Of this figure around £100m was attributed to the offshore division, the major part of which, Scott-Lithgow, was sold into private ownership earlier in the year. British Shipbuilders' target intake of new orders during the current year is in the region of 200,000 gross registered tonnes, almost double the 1983 figure of 117,000 grt.

The BS Chairman made clear in his remarks accompanying the presentation of the annual report that he had been impressed by the performance of Govan which had taken three new orders last year and was actively seeking more at present. While the praise was deserved, the primary aim of the comments was to highlight the rather sorry situation at Cammell Laird in Birkenhead where uncertainty surrounding the yard's future has sparked unofficial action. Mr Day also stated that British Shipbuilders intended to dispose of its two remaining ship-repair facilities and its general engineering interests which together account for 6,000 of the company's 48,500 workforce.

Publication of the Annual Report coincided with the Government's announcement of the privatisation of the state-owned company's seven warship building yards. The news that the Government intended to sell off the profitable warship division, which employs 25,700 throughout Britain, was greeted by two reactions which seem rather strange to the independent observer. The first was that of the BS Chairman who asserted that the decision had been taken both against the advice of the corporation and without prior notification of which yards were to be privatised. The Chairman added that he disagreed with the proposed sale and that, acting in the commercial interests of the corporation, he would have preferred to see the unprofitable yards sold off. It seems strange that there can be such wide disagreement and apparent lack of communication between the owners of a public corporation and its senior management.

The second reaction to the privatisation plans worthy of comment was that of the unions and the Opposition parties. For the unions at the warship yards to threaten industrial action seems bizarre. British Shipbuilders' track record does not reflect favourably on its senior management. It has taken the Corporation seven years to secure national agreements **allowing** local negotiations on flexible work practices and, in Scotland alone, it has moved out of two operations (Scott-Lithgow and Grangemouth Shiprepairers) which have since been successfully privatised. Indeed, the Scott-Lithgow case is the most telling indictment of BS's corporate management. A company which had been the subject of considerable criticism from senior management and Government managed to attract three prospective private buyers and, since completion of the Trafalgar House deal, has successfully introduced new work practices, safeguarded employment for 3,500 and delivered HMS Challenger to the Navy's satisfaction.

Instead of fighting privatisation plans the workforces at Yarrows and at Hall-Russell should embrace them warmly - if only to escape from the lumbering BS giant. There is no obvious reason to expect less investment from a private parent company than from a state-owned corporation. Scott-Lithgow is again a case in point. There is little doubt its performance record would have been improved if computer-aided design facilities had been forthcoming from BS resources. Nor is there any guarantee that privatisation will lead to lower levels of employment at Hall-Russell and Yarrows than would otherwise be the case. Nationalisation has not preserved jobs. The only logical basis for the threatened industrial (in)action in the warship yards is an altruistic interest in their fellow-workers in the merchant-shipbuilding division. However, belief that industrial action in the warship yards will save jobs in the merchant division is probably misfounded. There is little doubt that the merchant division will be heavily rationalised, (and that jobs will be lost) although Govan's position looks more secure now than for a number of years.

The naive argument that the profits made in the warship division have cross-subsidised the merchant yards in the last few years does not bear close examination. The £44m profit made by the warship division in 1983-4 (down from £55m in 1982-83) is less than half the loss incurred by the offshore section. To cite one change in circumstances while ignoring another, as the unions have been doing, is deceptive to say the least. By the time the warship yards are sold off, offshore activities will also have ceased. On the basis of the most recent accounts this will mean a cut in BS losses from £161m to £105m - a relatively small figure when considered beside the NCB's losses of £875m. The Government can, and should, allay fears in the industry by re-stating its commitment to a British merchant shipbuilding capacity. It should support this statement with a programme of new investment which will enable BS to go some way towards competing with south-east Asian countries. Only doubts about BS's management ability would then remain.

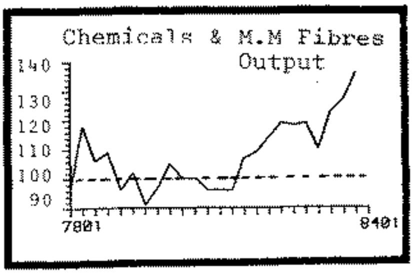
As part of streamlining plans already announced, BS are to shed a quarter of their engine builders jobs by December. Of these, 226 jobs will be lost in Greenock and Newcastle and will mean the closure of John G Kincaid's Arthur Street works in Greenock. A 3.9% pay deal, which is around half the going rate in British industry, has also been concluded for 1984. It has also been announced in recent weeks that the privatisation plans for the naval dock yards (including Rosyth) have been shelved indefinitely. However, 150 jobs are to be shed at Rosyth.

On the vehicle front, the run-down of operations continues at BL's Bathgate plant. To date around 270 of the 1800 workforce have been made redundant. The redundancy programme has been slowed down temporarily as there has been a slight increase in export orders. The search for a prospective buyer continues. The continuing rundown at Bathgate stands in contrast to the situation at the Albion axle works in Glasgow. There are no expectations of a reduction in the 950-strong workforce at the plant which has been designated the major British axle-supplier for Leyland vehicles.

Two further orders for Jetstream 31 aircraft have been placed with British Aerospace in the last three months. This brings total orders for the £1.8m turbo-prop to 44 in the current year.

CHEMICALS AND MAN-MADE FIBRES

The Scottish index of industrial production for chemicals and man-made fibres fell by 6 points - to 100 - in the fourth quarter of 1983. On the other hand, the UK index was stationary at 108 for the second quarter running. For 1983 as a whole, the UK figures show a steady rise from 104 in the first quarter to 108 in the last whereas the Scottish figures were much more erratic and fluctuated between 107 and 100. The reasons for these diverse movements are not immediately obvious.



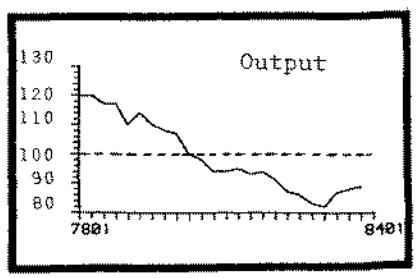
There have been a number of developments in this broad industrial grouping since the last **Commentary.** The £400m Shell-Esso gas fractionation plant at Moss Morran in Fife is nearing completion. The first test-flows of natural gas from the North Sea are moving through the pipeline and everything is on schedule for the 1985 starting date. When the plant is fully operational it will take the natural gas and natural gas liquids which lie on top of oil fields and turn them into marketable products such as propane, butane and ethane. This last element will be converted to ethylene (a basic building block for many plastics products) in the cracker plant which is being developed alongside the fractionating tower. When both of these developments are complete they will create around 200 jobs with the possibility of greater employment if related industries can be enticed into the area.

In the south of Scotland the chemical giant, ICI, announced a further £27m investment in its Dumfries plant. This brings the total investment in the site to £62m over the last year and will make it the top Melinex polyester film producer in Europe. This latest expansion will result in another 60 permanent jobs (on top of the 100 from last year's move) being brought to the area.

DCL, the whisky giants, are to invest £1m at their United Glass subsidiary's factory in Bridge of Allan. This is the first phase of a £2m expansion programme for the plant which manufactures lightweight, shatter-proof bottles mainly for use on airlines. More good news came from two west of Scotland organisations. First, Stoddard, the Elderslie-based carpet manufacturers, announced a pre-tax profit of £76,000 after four years of loss-making. Enthusiasm for these results, however, was short-lived as the first quarter's orders were well down on last year. Secondly, the plastic packaging group, Scott and Robertson, saw pre-tax profits rise to £785,000 from £92,000 in the previous year - an eightfold increase. The firm now has its headquarters in Greenock. Finally, fifty additional jobs are expected when the plastics extruder, Anaplast, moves from its Irvine site to new extended factory premises in nearby Stevenston.

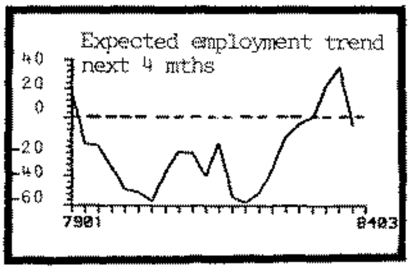
One black spot for the industry announced last month is the prospect of 300-400 redundancies at the Royal Ordnance factory in Bishopton. This may come about if work, presently on the order books for next year, is transferred to West Germany under the work-sharing rules of NATO contracts.

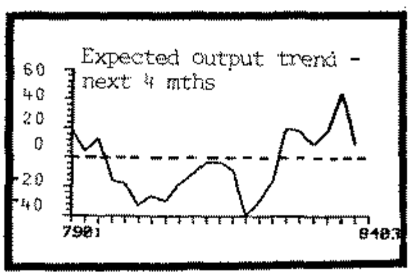
TEXTILES, LEATHER, CLOTHING AND FOOTWEAR



The index of industrial production for the last quarter of 1983 shows the industry was, slowly but surely, reversing the decline in output which began in the first quarter of 1978 and lasted until the first quarter of 1983. More recent data from the CBI, suggest, however, that the recovery may now be faltering.

While a balance of 28% of textile respondents to the CBI's July survey were more optimistic about the general business situation than they had been four months previously, this proportion was markedly down on previous quarters. Other questions in the survey also provide evidence of a slackening of the pace of growth in this sector. Though 85% of respondents expect the volume of new orders to remain unchanged over the next four months, with export orders looking more promising than domestic ones over the same period, the most recent survey recorded declines both in the positive balance of respondents who had increased output in the last quarter and those who expect to do so during the next. Responses to the CBI questions on employment are consistent with those on output, showing an expected slackening of the pace of net hiring in this sector in coming months.





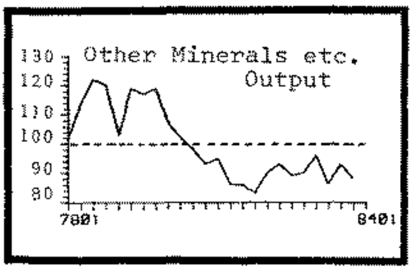
Dawson International, the quality knitwear group, reported pre-tax profits for the financial year 1983 up by 26% over the previous year to £25.25 million on turnover of £179 million. Sales rose 21% to £82 million in the UK, and by 24% to £22 million in the US. Two-thirds of the sales in the UK are to tourists, so that the principal factor explaining the sales increases in both markets is the decline of the pound against the dollar. The rapid growth of the US economy so far this year is also bringing a contribution to Dawson's profits through its recent US acquisition, the Morgan thermal underwear firm, whose sales are benefitting from the consumer spending boom.

At the opposite end of the spectrum, Scottish plants which manufacture casual trousers, mainly jeans, are facing a grim outlook, as world-wide sales of jeans are falling. Changing tastes amongst young buyers has meant a dramatic decline in the popularity of western blue jeans in favour of fashion clothes. Levi-Strauss employ 1,200 in their four Scottish plants at Whitburn, Uddingston, Dundee and Inchinnan, while Blue-Bell (who make Wrangler) have two plants in Falkirk employing 450 people. Levi-Strauss are trying to diversify into the manufacture of fashion clothes, and the Inchinnan plant has been entirely turned over to the production of these garments, as has 45% of Dundee's output. Fashion clothes are more difficult to make, requiring additional machinery and retraining of staff, and less certain to sell. The Blue-Bell response to the new situation appears to differ from the strategy adopted by Levi-Strauss. The former are reducing their range of garments, and concentrating on the higher volume lines.

The long-run outlook for many manufacturers of standard quality textiles and clothing products in Scotland, as elsewhere in the Western world, is not good. Since 1973 they have been protected against the full force of low cost imports from the poorer countries of the world by the Multi-Fibre Arrangement (MFA) and other devices. There are signs that the MFA may not be renewed when it expires in 1986. Freer trade however may be to the advantage of those producers in the advanced countries who have introduced new technologies to offset the low labour costs of the poorer countries. They may then have access to the rapidly growing clothing markets in these countries, instead of being confined, as at present, to the more slowly growing clothing markets of the Western world.

OTHER MINERALS AND MINERAL PRODUCTS

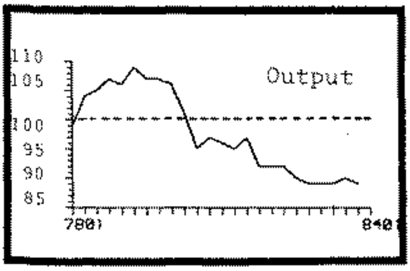
Scottish output of other minerals and mineral products declined by 5% during the



fourth quarter of 1983. Nonethless output for 1983 as a whole was marginally higher than in 1982, confirming continued recovery from the marked decline in 1981. Some larger companies in the building materials industry expect that further improvements will take place in the current financial year. In common with the rest of UK industry however, output remains substantially below pre-recession levels.

The Newbigging quarry in Fife reopened in June after more than forty years of closure. The sandstone quarry had earlier been reopened temporarily to provide stone for repair work to the Gustavi Cathedral in Sweden, built with the same materials in the mid-18th century, and for rehabilitation projects in Glasgow and Edinburgh. The specification of Newbigging stone for the new National Library in Edinburgh prompted the owners, Stewart McGlashen, to fully reopen the quarry, joining the few remaining producers of sandstone in Scotland.

PAPER, PRINTING AND PUBLISHING



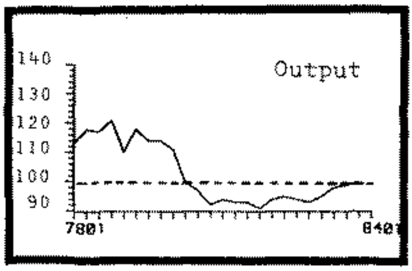
Signs of recovery in this sector, noted in the last two issues of the **Commentary**, are not yet reflected in the most recent Scottish index of production for Paper, Printing and Publishing, which fell from 90 to 89 in the fourth quarter of 1983. If indeed there has been some recovery, it should be evident in the index value for the first quarter of 1984.

On the paper side, up to 200 new jobs will be created through a £22.5 million expansion programme by Thomas Tait and Sons of Inverurie. The investment will triple the company's production capacity, with the new equipment expected to be in operation late in 1985.

In printing, the Society of Master Printers of Scotland has recently launched the first comprehensive guide to Scottish printing facilities. Backed by the SDA, this marketing effort is designed to meet strong competition from printing firms south of the Border, in what is a highly competitive and technologically-sophisticated industry.

The main news on the publishing front is the acquisition of the Mirror Group Newspapers (including the Scottish Daily Record and Sunday Mail) by Robert Maxwell's Pergamon Press. There are union fears that this will result in job losses. Maxwell already has interests in Scotland through the British Printing and Communications Corporation.

OTHER MANUFACTURING



The index of industrial production for this sector registered a fourth successive increase in the final quarter of 1983, regaining its average 1980 level of 100. The sector includes timber, rubber and plastics products and miscellaneous industries.

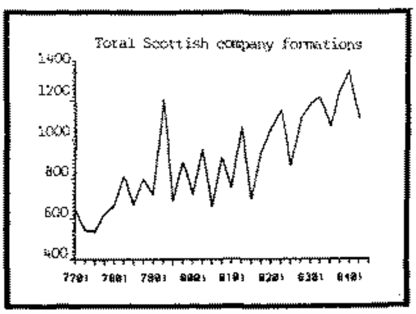
Timber merchants Brownlee report a 12% rise in turnover this year and encouraging prospects for sales to the building industry, but warn of strong competition in the face of reductions in public expenditure and in home improvement grants.

Toymakers Thomas Salter of Glenrothes have achieved substantial export sales of chemistry sets and electronic kits to the American market and have taken on extra workers to cope with the upturn in sales.

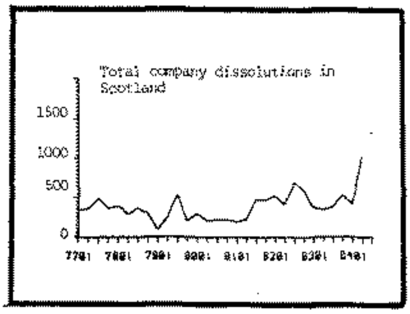
Less happy news is the effective demise of the long-established Port Glasgow firm of Black and Edgington whose former chairman was Mr Robin Duthie, now chairman of the SDA. Following a complex series of financial machinations, the company came under the control of entrepreneur Michael Ashcroft, who then executed a classic asset-stripping operation. From a group with extensive interests in a wide range of leisure activities, the company has been reduced to a travel company based in London.

COMPANY FORMATIONS AND DISSOLUTIONS

The number of company formations in Scotland during the second quarter at 1,109 was marginally lower than the average three-monthly figure over the two preceding years. The number of dissolutions was without precedent. At 1050, it was more than three times the number in the same quarter of 1983, and more than twice the quarterly average for 1983 as a whole.



The value of these series as short-term indicators is highly dubious. As the accompanying graphs show, the incorporation series is both trend dominated and contains a considerable amount of seasonal variation. Though a pronounced peak in the incorporation series does indeed coincide with the last cyclical peak of the economy in mid-1979, a secondary peak coincides with the trough of the recession in mid-1981.



There is markedly less variation in the dissolution series, but that does not make it any easier to interpret as the cyclical peak of the economy in 1979 appears to have been accompanied by a peak in dissolution activity. The number of dissolutions then declined as the economy went into the downturn. Such behaviour is counter-intuitive. The most probable explanation of the time-path of the two series is that they are influenced primarily by institutional rather than by economic conditions.

The Service Sector

THE FINANCIAL SECTOR

Although for consumers the major financial event of the quarter was the substantial rise in the mortgage rate and associated rise in rates to depositors, of rather more significance to the financial sector has been the accelerating pace of changes in the ranks of the financial institutions. A series of proposals from the Stock Market, stemming originally from the agreement with the Secretary of State for Trade to scrap minimum commissions, has been forcing broking and jobbing firms to seek outside capital. The proposals spell the end of the single capacity system and its replacement by a dual capacity scheme in which brokers will use their own resources to maintain a 'book' in a share, replacing in the process the role of the jobber. Such a system poses particular problems of possible conflicts of interest. The most obvious is a purchase or sale from the broker's book and the need to ensure that the transaction is at arms length with the investor receiving or paying the market price.

The ending of single capacity has created a need for member firms to secure outside capital which in turn has resulted in a rush of hasty marriages as brokers forge links with larger institutions. This opens up the possibility of financial supermarkets ready and willing to satisfy any and all the demands of financial consumers. The NatWest, for example, by purchasing a stake in Fielding, Newson-Smith (brokers) and Bisgood Bishop (jobbers) and integrating them with its own merchant bank (County Bank) will have "issuing, market-making and distribution capacity all under one roof". Together with its own substantial retail network this must provide it with a comprehensive ability to meet all the financial needs of the consumer. The bank will be poised to offer a complete range of financial services ranging from banking through stock market deals to insurance, housing finance and pension plans.

It is unlikely that the present system of marketing financial services and offering advice will endure. Consumers incur substantial transaction costs, not necessarily monetary, in dealing with a number of different institutions. Two pressures on the marketing of financial services are particularly apparent - the pressure from the retail side of banking which already offers most financial services and is currently undergoing a substantial strengthening, and the pressure from electronic mail. Developments in telecommunications and the ability to transfer funds by telephone suggests that the consumer will have little need to leave his own house (although interviews with the bank manager may be more difficult!). In this sense the move to financial supermarkets is already out of date although the strengthening of the range of services the institutions can offer is obviously important. To survive in the absence of a monopoly conferred by regulation, firms will require both financial strength and the capacity to offer a wide range of services.

At the same time as the brokers have been coming together with the banks and other financial heavyweights there have been pressures from the building societies to be allowed to offer a wider range of financial services. The recent Green Paper allows them to proceed some way in this direction and it is to be hoped that it is only the beginning of a process of relaxation of controls. (See Feature Article).

Where does Scotland stand in this rush to inaugurate financial supermarkets? The absence of substantial indigenous Scottish based building societies removes one route by which such groupings could emerge. Of the stockbrokers, Wood Mackenzie is linking with Hill Samuel but most of the others are probably too small to be of much interest to international institutions. The Scottish banks might take a stake, although their involvement with London based banks reduces the attraction of such a deal. The Royal Bank seems the most likely candidate, although given its current merger with

Williams and Glyns it may be doubted whether it has the management resources for other changes. All in all the prospects for the emergence of a Scottish financial supermarket seem slim, at least for the moment. The day when all financial transactions are handled by one institution still seems rather remote. For the consumer, the gap will no doubt be filled by UK based institutions. More worrying perhaps is the long term impact on the independent specialist financial institutions who may find it increasingly difficult to secure satisfactory marketing channels. Will they have any place in an environment dominated by very large institutions with substantial resources and marketing skills?

DISTRIBUTIVE TRADES

The size and importance of the retail trade in the UK is indicated by newly-published results from the retail inquiry for 1982. In that year there were some 350,000 retail outlets employing 2.3 million persons. Total turnover was £69.8 billion. Food retailers were the largest single kind of business, with a turnover of £27.2 billion and employment of 818,000.

UK **retail** sales recovered strongly in the second quarter of 1984 after a disappointing performance in the first, but then fell back again in July. In the three months from April to June seasonally-adjusted sales were 3% higher than in the previous three months and over 4% higher than in the second quarter of 1983. The buoyancy of retail trade in recent months is confirmed by the results of the latest CBI/FT survey (June) in which a net 60% of respondents reported higher sales in June 1984 than in June 1983. A net 61% of respondents expected July sales to be higher this year than last year. However, the CBI survey was completed before the recent rises in interest rates, which generally has a depressing effect on retail sales.

Sales in the UK **wholesale** sector appear to have been static in recent months. Only a net 1% of CBI/FT respondents reported higher sales in June 1984 than June 1983, the lowest positive balance since the survey started. Respondents expected improved results in July, but a retrospective analysis of survey returns indicates that wholesalers have generally been over-optimistic about future performance for most of this year. Wholesalers in fuel and energy commodities did particularly badly, an outcome attributable in part to the miners' strike.

New **motor** vehicle registrations in Great Britain in June were 184,532, 5% higher than in June 1983. Car registrations were 6% higher, and goods vehicle registrations 35% higher, than the same month a year ago, while registrations of motor cycles were lower. In the twelve months to June of this year, new vehicle registrations in Britain were 4% higher than in the corresponding period to June 1983. In Scotland, new car registrations in May-June were 1.5% higher than the corresponding period lasts year. Company car registrations continue to account for only one third of the Scottish total compared to almost half in the case of Britain.

In Scotland, it was announced in July that Sir Hugh Fraser was to add 12 more retail stores to his Scottish group in a £300,000 deal with Caird of Dundee, while Marks & Spencer have launched an in-store cash and credit card in their Scottish branches.

TOURISM

Official figures for tourist travel within Britain by GB residents (so called 'domestic tourism') are obtained from a reglar annual survey, the **British Home Tourism Survey** (BHTS). This study is commissioned by the English Tourist Board on behalf of itself and its three sister organisations - the British Tourist Authority, the Scottish Tourist Board and the Wales Tourist Board. It provides data at the GB and at sub-national English, Scottish and Welsh levels. A relatively wide definition of tourism is employed: BHTS figures include all journeys by British residents which involve a stay of one night or more away from a person's normal place of residence, regardless of the purposes of the trip. Thus business and conference trips are included as well as those undertaken for leisure purposes. It should be noted that overseas visitor tourism flows are monitored by a separate continuous survey - the International Passenger Survey - and will be dealt with in the next issue of the **Commentary.** Details of key aspects of Scottish domestic tourism trips for 1983 as extracted from the latest BHTS returns are analysed below.

The volume and value of Scottish domestic tourism is shown in Table 1. In 1983 it is estimated that approximately 10.5 million tourist trips were taken in Scotland. (For purposes of comparison, roughly the same number of domestic tourism trips were recorded for East Anglia and for South-East England, while the figues for Wales and England were respectively 12% and 932% greater). Altogether, these tourists stayed about 51.5 million nights in Scotland (circa 7% of the British domestic tourism total) and spent somewhere in the region of £605 million. Relative to 1982, trips and nights fell by 11.8% and 2.5% respectively, while spending rose by 29.5% - a somewhat confusing picture of much **increased** value figures side by side with **declining** numbers of tourists and bednights!

TABLE 1 SCOTTISH DOMESTIC TOURISM 1982 AND 1983 : TRIPS, NIGHTS AND SPENDING

	Trips (millions)	Nights (millions)	Spending (£millions)
1982	11.9	52.8	467.0
1983	10.5	51.5	604.6

Source: English Tourist Board, **British Home Tourism Survey** London, 1984

The reported BHTS drop in volume seems even more strange in the light of sucessive increases in hotel and self-catering accommodation occupancy over the years 1981, 1982 and 1983 (see Scottish Tourist Board **Fifteenth Annual Report 1983-84**, p.30), and generally increased admission figures at tourist attractions when the 1983 year is compared with 1982. Indeed, BHTS figures, disaggregated at the Scottish level, are open to fairly wide margins of error, and the figures (especially estimates for individual years) need to be treated with a good deal of caution. For this reason, the Scottish Tourist Board has decided to withdraw from the BHTS and, from January of this year, has carried out its own survey of tourism in Scotland by Scottish residents. Because of this it is safer to concentrate on the overall trends over a number of years in the BHTS figures. Over the past decade (see Table 2), the trend in the volume of Scotland's domestic tourism is indicative neither of decline nor expansion. Vaccillation might be the word which sums things up.

TABLE 2 SCOTTISH DOMESTIC TOURISM 1974-1983: TRIPS AND NIGHTS

Year	Trips (millions)	Nights (millions)
1974	11	55
1975	10	60
1976	11	50
1977	12	65
1978	12	55
1979	11	55
1980	13	55
1981	11	50
1982	12	55
1983	11	50

NOTES: (1) Trips are rounded to nearest million
(2) Nights are rounded to the nearest 5 millions

Sources: English Tourist Board, **The British Home Tourism Survey,** annual summary documents for 1982 and 1979, London

English Tourist Board, **The British Home Tourism Survey January to October 1983,** London, 1984

The 1983 BHTS findings reveal that the dominant reason for an overnight stay in Scotland is a visit for holiday purposes. These accounted for about 62% of domestic tourism trips (see Table 3), 75% of all bednights and 68% of all nights spent in hotel units. Spending by holidaymakers forms the financial backbone of Scottish domestic tourism, comprising 67% of the total for 1983 (see Table 3). Trips of all kinds were evenly split between 'short and additional' (1-3nights) and 'long' or 'main'

(4 or more nights). Stays of 7 or more nights comprise only 29% of all tourism trips to Sotland taken by GB residents. More domestic trips were located at urban than at rural destinations, 46% as opposed to 33%, with the seaside as the location for a further 22% of trips.

TABLE 3 SCOTTISH DOMESTIC TOURISM 1983 : TRIPS PURPOSE

	Trips %	Nights %	Nights spent in Hotels %	Spending %
Holiday	39	54	64	57
Visits to friends and relatives for holiday purposes	23	21	4	10
Visits to friends and relatives for non-holiday purposes	15	10	2	5
Business	17	11	28	25
Conferences	2	1	2	1
Others	4	3	1	1

Source: NOP Market Research Limited, **British Home Tourism Survey 1983, Vol.1, All Tourism**, NOP, 1984

A clear majority of Scotland's domestic tourism trips (53%) were made by Scots (see Table 4). The vast bulk of the remainder (45%) was made up of English tourists of whom 29% originated from the South-East, 22% from the North, and 16% from the North-West. When spending rather than the tourists themselves is considered, the overwhelming importants of English residents to the country's tourist industry becomes apparent. Over two-thirds of all domestic tourism expenditure is made by English visitors, and in only one region of Scotland (Fife) is expenditure by Scottish visitors larger than by English ones.

BHTS statistics indicate that overall the region to benefit most from domestic tourist spending is Strathclyde (24%), followed by the Highlands and Islands (18%), Lothian (11%), Tayside (10%) and Grampian (9%). Over two-thirds of Scottish domestic tourism trips (69% consist of people travelling alone or with a single adult companion (spouse, other relative or friend), and in only 19% of cases are these parties accompanied by children. Nearly two thirds of trips were made by car (64%), 12% by train, and 9% by bus. The single most important source of overnight accommodation was the homes of friends and relatives (47%), with hotels (30%) and caravans and camping (15%) being the next most popular modes. Finally, the seasonality of Scotland's domestic tourism is indicated by the fact that in 1983 55% of main trips and 45% of additional ones occurred between June and September.

TABLE 4 SCOTTISH DOMESTIC TOURISM 1983 : SCOTTISH AND ENGLISH VISITORS TO SCOTTISH TOURIST REGIONS

	% of tourist trips attrib. to Scottish residents	% of tourist trips attrib. to English visitors	% of tourist spending attrib. to English visitors
Highlands & Islands	40	60	74
Grampian	49	47	65
Tayside	62	35	55
Central	56	39	72
Fife	77	23	39
Argyll	48	51	66
Strathclyde	53	44	63
Dumfries & Galloway	28	68	84
Lothian	45	52	64
Borders	32	65	73
All Scotland	53	45	65

Source: NOP Market Research Limited, **British Home Tourism Survey 1983, Vol.1, All Tourism**, 1984

TRANSPORT AND COMMUNICATIONS

The actual or impending privatisation of transport services and infrastructure continues to dominate this sector. (See Briefing Papers 1 and 2 and Economic Perspective 3). Following a critical report by the Monopolies and Mergers Commission the Scottish Transport Group have been instructed to dispose of its MacBrayne Haulage subsidiary which provides rural haulage services to the Scottish islands. British Rail's Sealink subsidiary has been sold off to the American owned Sea Containers Limited, at a price of £66m which is is regarded as on the low side by almost everyone except the Government. Sealink's main business is concentrated at Channel ports although it operates on the Stranraer-Larne route. This latter route is a lossmaker, which, allied to its remoteness from the main bulk of the business, has provoked concern over its future.

The Scottish lobby have reacted furiously to a recent report by the Select Committee on Transport which takes an extremely pessimistic view of the prospects for Prestwick airport. The report calls for the British Airport Authorities 4 Scottish airports to be sold independently of the 3 London facilities. In 1983-84 BAA's profits increased by 47% to £51.5 million. The 4 Scottish airports lost £675,000 with Glasgow and Aberdeen showing a profit of £2.8 million, the losses at Edinburgh declining to £112,000 and Prestwick's losses rising to £3.4 million. Although income from commercial activities rose slightly at Prestwick, the revenue from landing and parking fees and other aircraft-reflected services dropped by approximately £450,000. The total number of passengers using Prestwick has more than halved in the past 5 years whilst the annual loss has more than quadrupled since 1980/81 on a current cost basis. Total cargo and mail business continues to decline. It is highly unlikely that Prestwick could survive privatisation of any kind.

The Select Committee report pre-empts the recently announced review of Lowland Airport Policy and is strong evidence that others rightly regard Scotland's future as an intercontinental gateway as problematic if the Scottish lobby continues to base its case on Prestwick.

The proponents of Prestwick continue to clutch at straws. It has been asserted recently that BA are considering returning to the Ayrshire airport. BA are indeed stirring in order to protect its market share of scheduled transatlantic flights. From April 1985 the state airline will fly to North America from Manchester. This is best regarded as a move to forestall British Midland's attempts to develop intercontinental services from the North-West via Glasgow. The Prestwick rumours should be regarded in the same light. There is a distinct Scottish market which Manchester may progressively undermine unless the strength of Glasgow's interlining opportunities are capitalised upon. A suitable Scottish gateway has considerable market potential and could divert business from the South-East. BA has a monopoly of UK international flights at Heathrow, a major share of the Heathrow-Scotland trunk business and an existing presence at Manchester. Thus its commercial interested are better served there than at a Glasgow hub. The BAA argument that investment at Glasgow is risky because the existing Prestwick operators may prefer Manchester is certainly suspect. There is a clear and profitable business opportunity to fly directly between North America and Scotland which is at present constrained by the locational disadvantages of Prestwick whose non-existent route network minimizes its catchment area. A developed Glasgow airport would more than hold its own with Manchester.

The defence of Prestwick creates curious allies. The representatives of prosperous Glasgow suburbs rush to Prestwick's aid and those who represent the unemployed of West Central Scotland remain largely silent. Environmental considerations are indeed of great importance, but such costs must be set against the inevitability of Scotland becoming an air transport backwater if Glasgow is not developed. Privatisation and events at Manchester must further reduce Prestwick's viability as an Atlantic gateway.

The Civil Aviation Authority accounts for 1983/84 provide little optimism for those who wish to see the Highlands and Islands aerodromes in private hands. Over the year the operating loss on the 8 airports increased by £427,000 to £2.5 million and unlike last year, all eight locations made losses. This reinforces the view expressed in the last **Commentary** that private sector interest in acquiring them is likely to be slight and that central government will have to pass the problem to the various Regional and Island authorities. The ratepayers in these areas would be justifiably unhappy if their councils paid anything for these financial liabilities and would expect grant aid of a similar level to that currently given to the CAA.

The Labour Market

There is an increasing volume of evidence to suggest that the Scottish labour market over the past five years has behaved quite differently from that of Britain as a whole. This is not surprising given that Scotland's descent into recession appears to have been more prolonged and its recovery more sluggish than that experienced in the broader British economy (See Industrial Performance: How Deep was the Recession?).

Several features of the Scottish labour market experience are noteworthy. Firstly, while the number of self-employed in Britain increased by 350,000 between 1979-83, the corresponding category in Scotland fell by 5,000. Self-employment of both sexes increased in Britain, but in Scotland the number of self-employed males actually appears to have fallen by 10,000 in the four years to 1983. Secondly, though the incidence of short-time working is currently almost the same in Scotland as in Britain as a whole, Scottish industry made much less use of this device during the recession than did British industry. Thirdly, the rise in British registered unemployment over the last year has been accounted for almost entirely by females. In Scotland, the picture has been the reverse, with the increase in male unemployment exceeding that of females over the same period. Finally, during the last year, the trend of vacancies in Scotland has been the opposite of that in Britain. The number of notified vacancies in Scotland in July of this year was 13.5% lower than a year ago. For Britain as a whole, the number of vacancies increased by 6.5% over the same period.

It is difficult to reconcile these facts with the official rhetoric of Scotland leading the UK out of recession.

EMPLOYMENT

Publication of regional quarterly employment estimates has again been temporarily suspended, this time to take account of information from the 1983 Labour Force Survey (See: British Economy; Labour Market). Data from this survey have been used to derive new UK estimates for June 1983, which in turn will be used to realign regional quarterly estimates from June 1981 onwards. Employment estimates for Scotland, consistent with the revised aggregate UK estimates and subdivided by industry, will be published later this year.

Preliminary results of the 1983 Labour Force Survey do however provide new information on self-employment. Given the increasing emphasis on the role of small businesses in job creation and economic recovery, there has been considerable speculation about the actual significance of self-employment in the economy in recent years. Any assessment however has been hampered by the lack of hard information. Benchmark estimates of the total number of self-employed are primarily derived from the decennial Censuses of Population, the most recent of which was in 1981. Between censuses, estimates are obtained by using supplementary information from other sources, the biennial Labour Force Surveys being the most important since their inception in 1975.

When compiling estimates of the employed labour force in the interval between completion of one survey and the availability of the next, the Department of Employment has usually assumed that self-employment has remained constant. However, for the period 1981 to 1983 and prior to the availability of the 1983 Survey results, the Department of Employment departed from this practice and assumed that the rate of increase in the number of self-employed, observed between 1979 and 1981, was continuing. The weakness of this approach has been underlined by the results of the 1983 survey which indicate a much lower rate of change in the period 1981-83. Revised estimates for June 1983 have therefore been derived by applying the proportionate changes in self-employment between 1981 and 1983, shown by the Labour Force Surveys, to the estimates for June 1981 derived from the Census of Population.

As can be seen from Table 1, total self-employment in Great Britain in June 1983 is now estimated to have been 2,199 thousand, an increase of 142 thousand, or approximately 6.9%, since 1981. Compared with previous estimates, self-employment grew over the period at a rate significantly less than the 11.7% seen between 1979 to 1981. As a result the earlier estimate of self-employment in June 1983 has been revised downwards by 58,000.

Table 1 Self Employed People in Scotland and Great Britain (000's) [1]

	Scotland M	Scotland F	Scotland T	Great Britain M	Great Britain F	Great Britain T
1971	121	27	148	1556	398	1954
1972	118	28	146	1543	389	1932
1973	121	25	146	1589	380	1969
1974	118	25	143	1563	372	1935
1975	135	23	158	1549	384	1933
1977	127	32	159	1465	378	1843
1979	150	38	188	1499	343	1842
1981	122	27	149	1640	417	2057
1983	140	43	183	1675	525	2199

1) Self-employed with and without employees.

Source: Department of Employment Gazette

Given the small sample size of the Labour Force Survey the Scottish figures in Table 1 must be viewed with some caution. The estimates for Scotland from 1971 onwards are available only for the years shown but it is clear that the trend over that period has not been one of sustained growth. A particularly severe decline of over 20% in total self-employment appears to have occurred between 1979 and 1981. Although there was a significant increase between 1981 and 1983, the total of 183,000 for June 1983 was still 5,000 below the 1979 pre-recession total of 188,000. By contrast, all other British standard regions recorded net increases in self-employment over the recession, ranging from approximately 2% in East Anglia to over 50% in the North of England. In every region, including Scotland, the number of people self-employed was higher in June 1983 than a decade earlier.

Many possible explanations can be advanced for the growth in self-employment, but it is difficult to assess their relative significance. Over a longer time horizon, the increasing importance of the service sector will have offered opportunities for small service industries, particularly those with low set-up costs. This trend may also partly explain the growth of female self-employment since women workers have traditionally had a relatively greater representation in service sector activities. Between 1971 and 1983, female self-employment rose by 59.3% compared to an increase of 15.7% for male self-employment. Similarly, the increasing popularity of other forms of business organisations such as franchising and co-operatives will also have encouraged self-employment.

More recently, the recession has in certain circumstances been a stimulus to self-employment for the redundant, for those in work and for the unemployed. For some people, redundancy payments have provided a financial base from which to embark on self-employed ventures. The prospect of future unemployment may also have been instrumental in encouraging workers to seek self-employment as an alternative. The government introduced the Enterprise Allowance Scheme in 1982 specifically to assist unemployed people to become self-employed. Of the 92,651 people in Scotland included in the government's employment and training schemes in June 1984, almost 3,000 were covered by the Enterprise Allowance Scheme. Self-employment however is no safe haven from economic pressures as the dramatic fall in this category of employment in Scotland between 1979 and 1981 amply illustrates.

Since March 1980, when local authority employment peaked, approximately 7,000 jobs have been lost from this sector in Scotland. The March 1984 return of the Joint Manpower Watch reports little overall change in such employment during the first quarter. Over the year to March 1984 there has been a 0.17% reduction in the number of full-time equivalents local authority employees in Scotland. There has been an apparent tendency to substitute part-time for full-time employees, particularly within the manual sector. Over the year to March 1984 full-time manual employment fell by 3.1% whilst there was an equivalent percentage increase in part-time employment.

No Scottish regional authority made any significant change in manpower levels over the year to March 1984. Thus despite central government's pleas for a reduction in the level of local authority spending, no significant savings are being made through manpower reductions. Amongst district authorities, the picture is one of marginal changes. A noticeable exception is Cumnock & Doon Valley in Strathclyde where there has been a reduction of 162 or 32% in the number of full-time employees. This has been partially offset by a 36% increase (+165) in the number of part-time employees.

UNEMPLOYMENT

The downward trend in unadjusted total unemployment in Scotland, evident since January 1984, was reversed in July. During that month the total number of people unemployed and claiming benefit (or national insurance credits) in Scotland rose to 336,477 or 14.9% of all employees, an increase of 7,377 over the June figure and 6,135 more than the total for the corresponding month in 1983. Included in the July 1984 figure are 14,726 school leavers, 384 fewer than in the previous month. Not included however are 20,767 non-claimant schol leavers currently registered at Careers Office but who are technically not regarded as unemployed since they are not yet entitled to claim benefits until the start of the next school term.

The seasonally adjusted total, excluding school leavers, rose by only 100 in July to 323,400, or an unemployment rate of 14.4%. Over the year to July Scottish male unemployment increased by 5,700 (2.6%), while female unemployment rose by 2,700 (2.8%). This pattern is quite different from that in Britain as a whole, where the increase in registered unemployment over the same period has been primarily amongst females.

Although much has been made of the improvement in industrial performance in Scotland in the last half of 1983, the latest output figures indicate that the expansion of the economy has been both modest and patchy. The prospects for both employed and unemployed in many industrial and occupational groups will remain unfavourable for some time. The continuation of the miners' strike can only exacerbate the problem.

VACANCIES

The latest vacancy figures suggest that no significant reduction in unemployment is imminent. The number of unfilled vacancies (seasonally adjusted) notified to Scottish Job Centres in July was the same as the previous month but approximately 13.5% down on the total for July 1983. In Great Britain as a whole, however, the seasonally-adjusted stock of vacancies in July of this year was approximately 6.7% higher than that for the corresponding month of the previous year.

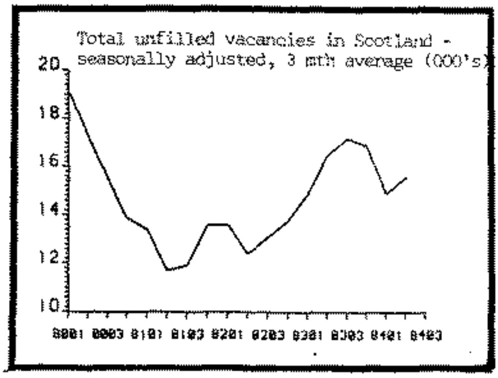


Table 2	Unemployment 1) Rate (%)		Unemployment 2) Vacancy Ratio	
	Jul 83	**Jul 84**	**Jul 83**	**Jul 84**
South East	9.1	9.4	13.2	11.6
East Anglia	10.0	9.9	14.7	13.9
South West	10.8	11.2	14.1	12.6
West Midlands	15.0	14.7	26.7	26.7
East Midlands	11.2	11.8	20.4	22.1
Yorks and Humber	13.3	13.7	26.4	27.5
North west	15.0	15.3	25.0	26.0
North	16.3	17.5	25.8	25.0
Wales	15.2	15.5	20.5	21.3
Scotland	14.2	14.4	17.9	21.3
Great Britain	12.2	12.5	18.7	18.1

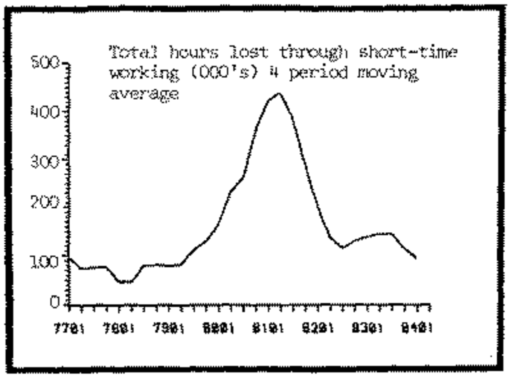
1) Seasonally adjusted excluding school leavers.

2) Seasonally adjusted excluding vacancies notified to Careers Offices.

Source: Department of Employment

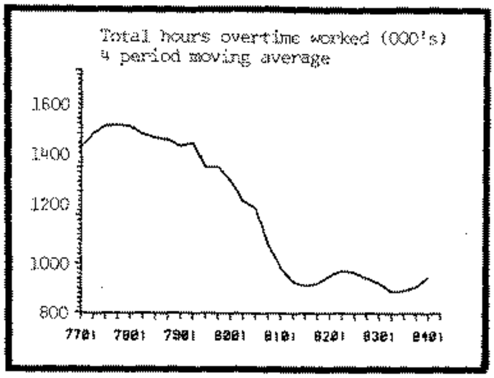
SHORT-TIME AND OVERTIME WORKING

Trends in both short-time and overtime working in Scotland during the first quarter are indicative of a continuation of the fourth quarter's growth in industrial output.



Total hours lost through short time working in Scotland increased slightly during the first quarter to 69.9 thousand. On a crude seasonally adjusted basis (four period moving average), the downward trend evident since the middle of 1983 has persisted. The number of hours lost through short-time working during the first quarter was equivalent to less than a quarter of that recorded in the corresponding quarter of 1981, and was only marginally higher than pre-recession levels.

The downward trend in short-time working in Scotland is taking place against a background of a similar trend in Britain as a whole. The reduction in short-time working in Britain is however proceeding at a much more rapid pace than in Scotland. This reflects the fact that the incidence of short-time working during the recession was much higher in the British economy as a whole than in Scotland. At the end of 1980, when short-time working was at its peak, 12% of British operatives were affected, but only 8.5% of Scottish. In the first quarter of this year, the corresponding figures were 1.4% and 1.3% respectively.



The total number of overtime hours worked in Scotland during the first quarter was only marginally higher than in the preceding quarter. However, once allowance is made for seasonal factors, there was a marked increase in the underlying total.

While short-time working in Scotland is now almost back to pre-recession levels, the same is not the case for overtime hours. Indeed, it is unlikely ever to be the case given the extent of the contraction which has taken place in the size of the manufacturing sector. Manufacturing employment fell by almost a quarter during the recession, so that the pre-recession intensity of overtime working, if applied to the depleted workforce, would yield a proportionately smaller number of overtime hours.

In interpreting trends in both short-time and overtime working, allowance must therefore be made for the contraction in the manufacturing workforce. Thus even though the number of hours lost through short-time working is now back almost to pre-recession levels, this loss is taking place from a smaller workforce. The true incidence of short-time working is therefore still considerably above 1979 levels. Making a similar adjustment to the number of overtime hours worked still leaves the total well below pre-recession levels. This fact is reflected in movements in the proportion of operatives working overtime. Though over a third of manufacturing operatives worked overtime during the first quarter, this is still several percent below peak 1979 figures. The average number of overtime hours worked per operative was however marginally higher than the pre-recession peak.

REDUNDANCIES

In common with other official statistics, redundancy data are now reported on the basis of the 1980 standard industrial classification system (see February Commentary). In the absence of officially reclassified data for the pre-1984 period, any analysis must be conducted at a highly aggregated level.

As the data appears with a lag, the latest period for which sectoral figures are available is the first quarter of 1984. Table 3 shows the number of confirmed redundancies in four sectors for the 1st quarters of 1983 and 1984. Overall, the level of redundancies was 22% lower in the latter period with the most significant fall occurring in the manufacturing sector. There also appears to have been some reduction in the shedding of labour in construction and services.

TABLE 3 CONFIRMED REDUNDANCIES

Sector	1st quarter 1983	1st quarter 1984	Change	% Change
Agriculture	19	11	8	-42%
Manufacturing	7,498	5,593	1,905	-25%
Construction	1,084	968	116	-11%
Services	1,023	911	112	-11%
Total	9,624	7,483	2,141	-22%

Source: Manpower Services Commission

INDUSTRIAL RELATIONS

Industrial relations in Scotland in the last three months have been dominated by the coal dispute. The general features of the dispute in Scotland have been very similar to those in England and Wales: large numbers of pickets, widespread secondary action, large numbers of police, and a significant amount of violence. Violence in the present dispute may primarily reflect the frustration of pickets that mass action - used successfully in earlier coal disputes - has not achieved its aims. Attempts to close pits, steel mills and other installations by the use of mass action has as yet not been successful.

The coal dispute has not been the only industrial relations problem in Scotland in the last three months. The workforce at British Leyland's Bathgate plant recently accepted the phased closure of the plant after a nine day sit-in. The closure results from an agreement between BL and the US Cummins company under which Cummins are to meet BL's engine needs from its production units in the UK rather than through a joint venture with BL at Bathgate. Attention has now focussed on the possibility that Marshall and Sons of Lincolnshire, who bought Leyland's tractor business in 1981, may take over the Bathgate engine assembly line in 1986.

Following a month's strike during March and April and renewed negotiations, a new pay and disputes procedure agreement was concluded at Weir's Pumps in June.

At the Crown Agents office at East Kilbride a 14 week strike occurred after the government decided to privatise the Crown Agents and gave no guarantee about future job security. The employers sought injunctions to stop picketing at their offices in East Kilbride. Withdrawal of this legal action has allowed talks to begin in order to try and find a settlement.

The other important industrial relations problem in Scotland recently has been the strike at the three Timex factories in Dundee, which ended a period of harmonious industrial relations. The strike appeared to arise from a delay by management in responding to issues raised by the unions during a works conference. Timex suffered a series of disputes early in 1983 and significant redundancies following the virtual loss of watch manufacture, the transfer of production of the 3-D Camera to Japan, and doubts about the future of computer and television work. These developments created considerable apprehension among the labour force about Timex's long-term intentions for the Dundee plants. These apprehensions appeared to have been allayed in the middle of 1983 when an agreement was concluded and a pay rise accepted. Now a further strike has occurred, suggesting that the uncertainty of 1983 has not yet disappeared.

Regional Review

REGIONAL LABOUR MARKETS

During the second quarter of 1984 total unemployment in Scotland fell by 769 to 336,477 (14.9% of the workforce). As can be seen from Table 1, this marginal decrease masked considerable variation at the regional level. The most severe relative deterioration was in Highland region where unemployment rose by 798 over the quarter, increasing the regional unemployment rate from 14.1% to 15.1%. The severity of the increase in this particular quarter reflects the run-down of the workforce at Highland Fabricators' Nigg site following the May completion of the hull section for Conoco's tension leg platform. Unemployment also increased during the quarter in Lothian, Fife and Western Isles. In July however, unemployment increased in every region with the exception of Shetland.

Table 1 Unemployment by Scottish Region

	Total Jul 84	Change Since Apr 84	Rate % July 84	Rate % Apr 84
Borders	3,313	- 45	8.5	8.6
Central	18,461	- 133	15.4	15.5
Dumfries & Galloway	7,081	- 384	12.8	13.5
Fife	18,658	236	13.7	13.5
Grampian	15,924	- 154	8.5	8.6
Highland	11,613	798	15.1	14.1
Lothian	43,723	820	12.6	12.4
Strathclyde	189,64	-1,182	17.4	17.5
Tayside	24,895	- 520	14.2	14.5
Western Isles	1,856	4	21.5	21.5
Orkney	681	- 83	10.7	12.0
Shetland	631	- 126	5.4	6.5
Scotland	**336,477**	**- 769**	**14.9**	**15.0**

Notes: All figures are seasonally unadjusted. Unemployment totals and rates include school leavers.

Source: Department of Employment

The continuing severity of the unemployment problem is even starker when sub-regional data is analysed. Of the Employment Office Areas for which unemployment rates are published, more than a dozen had male unemployment rates over 20% in July 1984, compared to a Scottish average of 17.9%. Amongst the worst affected were Dingwall and Irvine with male unemployment rates of 26.5% and 26.3% respectively. Significant variation is also evident in the female unemployment figures. For example, female unemployment of 21.7% in Forres and 29.3% in Arbroath was considerably in excess of the 15% Scottish average in July.

In more localised areas for which no unemployment rates are given, the problem can be particularly acute. For example, although Invergordon has been made an enterprise zone, unemployment in the year to July 1984 rose by more than 50% and demonstrates the difficulties in creating viable long-term employment opportunities in the event of a major closure. For this reason, the recent announcement of the impending loss of over 300 jobs at DCL in South Queensferry, must be viewed with considerable concern. The task of developing local initiatives to solve unemployment is hampered by the faltering of the upturn in the British economy.

The relative lack of employment opportunities in the Scottish regions is highlighted by the numbers of notified vacancies (Table 2). The total number of notified vacancies during the second quarter fell by 675 from the previous quarter. Six out of the 12 regions, however, had a greater number of vacancies in July than in April. The greatest absolute increase was in Grampian region where oil-related developments have consistently generated higher than average levels of economic activity. Over the year to July 1984, however, vacancies in Grampian showed a decline of approximately 8%. Strathclyde, on the other hand, had 1,046 fewer unfilled vacancies in July than in April and 997 fewer than a year ago, a decline of 18.6% and 17.5% respectively. While it is recognised that official vacancy figures are incomplete in several respects, they nevertheless give an indication of the demand for labour. The unemployment figures in Table 1 show that, even where vacancies have increased, their impact on unemployment has been minimal, such is the scale of unregistered unemployment.

Table 2 Vacancies by Scottish Region

	Total Jul 84	Change Since Apr 84	Jul 83
Borders	360	- 12	20
Central	897	- 57	- 306
Dumfries & Galloway	405	19	13
Fife	1,188	138	310
Grampian	2,247	220	- 163
Highland	959	- 131	- 47
Lothian	2,303	190	- 595
Strathclyde	6,680	-1,046	- 997
Tayside	746	62	- 607
Western Isles	95	- 63	- 31
Orkney	77	10	19
Shetland	61	- 4	2
Scotland	**16,018**	**- 675**	**-2,382**

Notes: Vacancies include those notified at Careers Offices and the Employment Services Division. This leads to overcounting and thus a marginal overestimation of the true number.

Source: Department of Employment

REGIONAL TRENDS

Grampian Region

The last quarter has been dominated by a series of closure or redundancy announcements in fish-processing industries. However, on the positive side, job gains have been, or will shortly be, realised in a number of sectors. Overall Grampian's economy remains remarkably buoyant.

The region has benefitted from several plant expansions. TRW Ferranti Subsea's premises at Ellon, where hydraulic control systems are manufactured, is to be doubled in size, leading to the creation of an additional 30 new jobs. Webco, also of Ellon, will take over the former SLP pumps factory, creating up to 50 new jobs in their coating and corrosion protection business. Seaforth Engineering, Inverurie, have received another major diving system order for the Balmoral field, ensuring continuity of employment for the local workforce. Dietsmann, the Aberdeen based offshore maintenance company, hope to double their present workforce of 200 in the very near future. Helle (Subsea Engineering) are to expand their Dyce bases with the creation of 50 new jobs, mainly for electronic technicians.

However, the last quarter has seen some unwelcome developments in the fish-processing industry. Young's Seafood are to close their Boddam plant and make a further 90 redundant at Inverbervie. The total job loss will be of the order of 250 to 280. However, there is a possibility of an outside interest taking over the Boddam factory while the Inverbervie plant, which processes smoked salmon, will keep about 34 jobs. Polar fish of Aberdeen have paid off 18 of their 65 workers. Two I's Seafood have laid off 11 full-time and 6 part-time workers, leaving them with a workforce of 15. Runsboro fish processors of Aberdeen have laid off 20 workers, and the jobs of a further 20 are in danger.

The total number of jobs lost over the last quarter in fish-processing industry is in excess of 300. However, Grampian Regional Council is to spend £1,000,000 to safeguard 270 jobs at the Clipper Seafoods factory in Aberdeen. The deal involves the Council buying the factory and leasing it back to a reorganised company.

Other, more hopeful, developments include the announcement by International Fish

Canners of Fraserburgh, that they are to recruit 40 workers to start a new evening shift. Thomas Tait and Sons are to create nearly 200 jobs with the installation of new papermaking machinery at their mill. The £22,500,000 investment will enable the company to compete with Europe's leading paper makers.

Strathclyde Region

The main economic and industrial news of the last quarter has, of course, centred on the miners' strike and the possible impact on Ravenscraig of attempts to blockade coal and iron-ore supplies to the plant. Thus far over 70% of the necessary raw materials are reaching the steelworks. (See Industrial Performance: Metal Manufacture).

Strathclyde Regional Council will be making available a sum of up to £1 million as an inducement to employers to create 2,000 jobs in the Region by the end of the year. An additional £1 million will come from the European Social Fund as its share in the 'employment grants scheme'. The scheme seeks to encourage employers to hire 18 to 24 year olds who have been unemployed for more than 3 months and those over 25 who have been unemployed for over a year. There will be 1250 places for the under 25s, the rest going to the older workers. Grants of up to 25% of gross wages will be paid up to a maximum of £39. For the over 25s the subsidy will run for 12 months compared to six months for the under 25s.

One of the most promising pieces of industrial news of the quarter was Prestwick Circuits' announcement of an additional 200 jobs at its Prestwick plant (see Industrial Performance, Electronics for details). Other welcome industrial news concerned the UIE oil rig yard at Clydebank. UIE's parent company AMREP, collapsed at the beginning of June leaving debts of over £120 million. Despite the reputation of the Clydebank yard in module and jack-up construction, there were fears that AMREP's bankruptcy would lead to the closure of the Clydebank facility with the loss of 700 jobs. However, Bouygues, the French construction group, are to take over the yard. Finally, Britain's first foodpark, developed by the SDA at Bellshill, has attracted four new firms. The industrial estate is specifically geared to companies in the food trade, and the latest expansion will lead to an additional 40 jobs.

The overall economic position of Strathclyde continues to give serious grounds for concern. Forecasts prepared for the Regional Council suggest the following gloomy scenario: on a "base" forecast, that is, one which assumes that the economy enters a period of pre 1979 type growth, unemployment will fall to around 140,000 by 1987 - this seems unlikely. On a "recession" projection, unemployment will rise to over 200,000 by 1988. In recent years the "recession" forecast has been much closer to actual experience. Current unemployment in the region is around 190,000.

Lothian Region

In an effort to ameliorate the hardship caused by the closure of the BL plant at Bathgate, Lothian Regional Council and West Lothian District Council have combined to stimulate employment. The councils hope to convince the government to spend £20 million or more in the area in an effort to mitigate the worst effects of the closure. The proposed package includes:-the granting of 'assisted area' status; a locally managed £3 million investment fund; a programme of land renewal and industrial building; improved communications; a re-training programme; additional MSC support for community projects, and the provision of aid for the development of existing businesses.

Whilst 4,500 Leyland jobs have already gone, another 1800 are threatened by the closure. It is hoped that the 'investment fund' alone will create or retain 350 jobs per annum over a five-year period.

Borders Region

The Borders' economy continues to display considerable buoyancy with a high number of vacancies and a declining unemployment trend. Thus, although there have been some redundancies at Tweed Valley Foods, Eyemouth, where 75 jobs have been lost and at Selkirk Tanneries Limited, which closed with the loss of 12 jobs, the overall outlook is bright.

Keltek Electronics Limited has taken on another 30 temporary workers. Sprague Electric (UK) Limited is employing 12 temporary staff. Also in electronics, a new company, Cirtec has opened in Galashiels and is employing 4 people; Bepi Circuits has opened a new extension at its printed circuit board factory at Tweedbank.

Likewise, textiles is having a good year. A new company, Tweedside Leisure, has started production of leisurewear at a factory in Peebles. Taylormade Knitwear has started up in an SDA factory in Hawick. Finally, one firm, John Tulloch (Shetland Products) Limited, which laid off 48 workers in March, has been taken-over in a management 'buy-out'. This has led to 46 of the 48 workers being re-employed.

Central Region

Events at the Re-Chem waste disposal plant at Bonnybridge continue to focus attemtion on the treatment of industrial waste. Despite denials by Re-Chem that toxic substances are escaping into the environment, a local farmer claims that traces of chlorinated dioxin have been identified in in soil samples taken from his farm. The Re-Chem factory burns chemical waste from all over the world, including polychlorinated biophenyls (PCB's). The latter, and other substances, are used as insulators in transformers and by law must be destroyed by burning. In some circumstances this can lead to the production of dioxins, which are exceedingly toxic.

In the light of public concern, an official enquiry has been set up to clearly establish whether or not toxic substances are escaping into the area around the plant.

Fife Region

Good news for the region came with the winning by RGC Offshore Limited of Methil of the Total Oil Marine contract worth over £30 million (see Industrial Performance; Mechanical Engineering). This all but guarantees employment for the yard's 1,000 workforce until 1986. This order was the third in a row which RGC have bid for and won and the yard has a deserved reputation for delivering on time within the allocated budget. The importance of RGC to the local economy can be ascertained from area unemployment statistics; male unemployment in Levenmouth is around 40%.

Tayside

Tayside Regional Council has made strong representations to the government for the retention of Special Development Area status for Dundee and Arbroath. The Council would also like Brechin to be considered as a 'development area'. This follows fears that when the assisted area map is redrawn in the autumn, regional aid to Scotland will be cut by between £37 million and £50 million. In the case of the areas mentioned, Dundee and Arbroath, it is exceedingly unlikely that they will lose their advantageous position as far as regional aid is concerned.

Tayside Regional Council, the SDA, Angus District Council and the Arbroath business community, are to launch a £2.3 million development initiative in Arbroath, which has Tayside's highest unemployment rate. The plan will seek to stimulate business development as well as generate support for existing enterprises.

Tayside Regional Council Economic Development Committee has offered £28,500 in financial assistance under the Tayside Business Development Loans and Grants scheme to seven Tayside businesses.

Dumfries & Galloway

In its first twelve months of operation to April 1984, Enterprise Assistance Scheme, set up by Dumfries and Galloway Regional Council, has entailed the spending of approximately £100,000 in direct assistance to business. The scheme seeks to both encourage the formation of new businesses and assisting existing enterprises. Thus far, over 40 firms have been helped. A further £100,000 is to be made available over the next twelve months.

Another scheme to be extended is the Regional Council's own Employment Premium Scheme. Set up in 1982, it was designed to encourage employers to hire young people. Thus far, premium grants of £50,000 have been paid. Another £50,000 is being allocated in an effort to encourage employers to retain their young employees.

The Highlands & Islands

For Highland Region itself, the most significant industrial news of the quarter concerns the failure of Highland fabricators at Nigg Bay to land the Total Oil Marine contract for the Alwyn B field (see Industrial Performance; Mechanical Engineering). The yard has been on a care and maintenance basis since the completion of an order earlier in the year. The other major oil construction yard at Loch Kishorn is also without an order. At one point the Highland's three large construction yards at Nigg, Kishorn and Ardersier betwen them employed over 7,000 people.

The Dolphin group of Aberdeen have lodged a planning aplication with the Regional Council for an oil service base/dry dock at Alness Point in Easter Ross. There is provision for more than 400 jobs in the project. The project would be the first dry dock repair facility for oil rigs in Western Europe. It would also complement the rig-berthage facilities at Invergordon which lack a dry dock. Obviously, such a dual capacity would enormously strengthen the Cromarty Firth's position in rig servicing.

Lewis Offshore of Stornoway, despite having recently laid off 75 workers, are now in a position to re-hire some of them following the securing of a contract worth up to £6 million (see Industrial Performance; Mechanical Engineering).

Meanwhile in an effort to generate small business development, the Highlands and Islands Development Board (HIDB), has announced a £150,000 programme of subsidised consultancy sessions for small businesses in an effort to put business people in direct contact with independent professional experts. The programme is designed to encourage individual businesses to engage professional consultants, who can independently review their operations and methods, with the HIDB meeting 55% of fees up to a maximum of £1,000.

The resilience of Shetland's economy is highlighted in a recent report prepared by the Fraser of Allander Institute for Shetland Islands Council. The Report estimates the annual growth rate for Shetland between 1976/77 and 1982/83 at 18.5%. Gross Regional Product for 1982/83 was £299.2 million, of which between £145 million and £170 million was generated by oil developments. However, only 26% of this was spent within the islands although oil was responsible for 30% of total economic activity in 1982/83. Not surprisingly, traditional Shetland industries have gained little from oil activity, as the oil industry itself is not well integrated with the local economy. It does, nonetheless, provide 3,000 full-time equivalent jobs and generates £29.3 million of income for local households. Average income for 1982/83 was £4,376 compared with a UK average of £4,223.

Orkney has had fewer benefits from oil than its northerly neighbour. The 'boom' was of short duration, no more than 2 or 3 years, and had only a marginal medium-term impact on the local economy. Orkney, therefore, has a much greater reliance on traditional industries. Fishing, despite the current scarcity of stocks, is prospering. A new white fish factory was opened last October and the number of people employed in the industry is growing. Farming is also doing relatively well and local farmers now have the advantage of a newly built local abbatoir. The local knitwear industry continues to grow steadily as the demand for 'quality' woollens increases worldwide.