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The Scottish Economy

Industrial Performance

BUSINESS SURVEYS

With the inauguration of the quarterly Scottish Business Survey (SBS) in September there are now two regular and up-to-date indicators of trends in the Scottish industrial sector. The combination of the new survey and the long-standing CBI Industrial Trends Survey provides a comprehensive and up to date assessment of trends in Scottish industry.

The two data sources are essentially complementary, but there are important differences between them. While the CBI survey provides information on trends by size of firm, the Scottish Business Survey provides a geographical breakdown of responses (see Regional Review). Equally, the CBI provides information on sectoral employment trends, while the SBS distinguishes between male and female employment, and in some sectors between full and part-timers. In addition, the number of respondents to the SBS is well over twice that to the CBI survey, and they cover not only Manufacturing but also construction, distribution and financial institutions. The results from the new SBS are therefore capable of a greater degree of disaggregation than those from the CBI.

The results of the two surveys are initially considered separately, and their combined verdict on Scottish industrial trends then summarised. Major background events during the weeks when the surveys were undertaken (late September-early October) were the decline in the exchange rate by nearly 3% from its average level of three months earlier and the breakdown of negotiations in the miners' dispute, culminating in the recommendation for strike action by the NACOD's executive on 16 October. These discouraging developments in the coal dispute may have had some influence on the change in the balance of respondents expressing confidence in the general business situation.

SCOTTISH BUSINESS SURVEY RESULTS

On balance Manufacturing respondents to the SBS are marginally less optimistic about the general business situation than they were three months ago. This overall picture subsumes greater optimism amongst firms in Metal Manufacture and Metal Goods, Electrical and Electronic Engineering, Food, Drink and Tobacco and Miscellaneous Manufacturing, and lower levels of optimism in the remaining industries, particularly in Mechanical Engineering and Other Engineering.

The marginally less optimistic judgment on the general business situation in Manufacturing presents a more gloomy picture than do the responses to questions on orders and sales during the past and present quarters. After allowing for seasonal factors, 37% of Manufacturing respondents reported higher sales in the three months ending in September, with 38% expecting further increases during the current quarter. Only 9% reported or expected lower sales. A somewhat higher proportion of respondents, 35%, reported higher orders in the three months to September with the same percentage expecting higher orders during the remainder of this year.

Only two sectors, Mechanical Engineering and Miscellaneous Manufacturing, reported lower orders in the three months to September, and only Mechanical Engineering expected further falls in orders during the current quarter. Mechanical Engineering was the only sector to record lower sales during the survey period and the only sector to forecast lower sales during the remainder of this year. The most marked increases in orders and sales were in Electrical and Electronic Engineering, Metal Manufacture and Metal Goods, and Textiles, Leather, Clothing and Footwear. Significant improvements in orders during the current quarter are forecast by respondents in Chemicals, Food, Drink and Tobacco, and Other

Engineering. Marked increases in sales during the current quarter are forecast by firms in Food, Drink and Tobacco, and Miscellaneous Manufacturing. Only Mechanical Engineering forecasts significant slowing down of orders or sales over the remainder of this year.

Sales Performance September 1984

	Balance of respondents reporting increased sales	
	Last 3mths	Next 3mths
All Manufacturing	+28	+27
Metal Manufacture & Metal Goods	+37	+38
Chemicals	+17	+25
Mech. Engineering	- 9	-11
Elec. & Electronic Engineering	+66	+70
Other Engineering	+13	+17
Food, Drink & Tobacco	+15	+23
Textiles, Leather, Clothing & F/wear	+60	+54
Paper, Printing & Publishing	+64	+65
Miscellaneous Manufacturing	+15	+24

Source: SBS, October 1984

Export markets emerge as more buoyant than markets in Scotland and in the rest of the UK. For the vast majority of sectors, growth in sales and orders is most sluggish in the Scottish market. The only exceptions to this pattern are Mechanical Engineering and Paper, Printing and Publishing, where in the three months ending September, Scottish orders and sales were more buoyant than those from the rest of the UK or the rest of the world. In Food, Drink and Tobacco, and Mechanical Engineering the most buoyant market during the remainder of this year is forecast to be Scotland.

On balance, respondents in Manufacturing reduced employment during the three months to September, but expect to marginally increase employment during the remaining months of this year. The major job shedding during the survey period was amongst respondents in Chemicals, Other Engineering, and Food, Drink and Tobacco, who recorded on balance reductions in both male and female employment. The only

sector substantially increasing employment in the three months to September was Electrical and Electronic Engineering, with marginal increases in Textiles, Leather, Clothing and Footwear and in Miscellaneous Manufacturing.

Employment Performance September 1984

	Balance of respondents reporting increased employment	
	Last 3mths	Next 3mths
All Manufacturing	- 2	+ 6
Metal Manufacture & Metal Goods	+ 6	- 2
Chemicals	-22	+13
Mech. Engineering	-14	-12
Elec. & Electronic Engineering	+44	-57
Other Engineering	-63	+ 2
Food, Drink & Tobacco	-14	- 7
Textiles, Leather, Clothing & F/wear	+16	-34
Paper, Printing & Publishing	- 5	+ 5
Miscellaneous Manufacturing	+13	+ 5

Source: SBS, October 1984

Respondents in Electrical and Electronic Engineering intend to increase employment further during the current quarter with additional jobs to be created for both males and females. Increases in employment are also forecast by firms in Chemicals, Paper, Printing and Publishing, and Miscellaneous Manufacturing. Respondents in Mechanical Engineering and in Textiles, Leather, Clothing and Footwear, expect to reduce employment over the remainder of this year.

The relatively buoyant outlook for orders and sales is reflected in revisions to investment intentions. Although two thirds of respondents did not revise their plans to invest in plant and equipment during the quarter, the bulk of the remaining third revised their intentions upwards, with the revisions being most marked in Electrical and Electronic Engineering, Paper, Printing and Publishing, and Textiles, Leather, Clothing and Footwear. Only amongst respondents in Food, Drink

and Tobacco were there significant downward revisions to plant and equipment investment intentions during the quarter.

Investment Intentions September 1984

	Balance of respondents revising intentions upwards	
	Plant & Equip.	Buildings
All Manufacturing	+29	+10
Metal Manufacture & Metal Goods	+ 5	+ 3
Chemicals	-10	-11
Mech. Engineering	+15	+ 3
Elec. & Electronic Engineering	+22	+26
Other Engineering	+16	0
Food, Drink & Tobacco	+ 6	+ 2
Textiles, Leather, Clothing & F/wear	+59	+ 6
Paper, Printing & Publishing	+64	+28
Miscellaneous Manufacturing	+40	+ 9

Source: SBS, October 1984

Revisions to investment intentions in buildings during the quarter are nowhere near as marked, with only 10% of Manufacturing respondents revising their intentions upwards. The most significant upward revisions were amongst firms in Electrical and Electronic Engineering, and Paper, Printing and Publishing. Only in Chemicals were there significant downward revisions of building investment intentions during the quarter.

CBI SURVEY

The results of the October CBI Industrial Trends Survey confirm a continuing, albeit modest, recovery in Manufacturing output in Scotland. Given the deteriorating industrial relations background to the survey it is perhaps not surprising that there was a decline in the proportion of respondents expressing greater optimism about the general business situation from +9% in the July Survey to -2% in October. It must be noted, however, that the majority (70%) of respondents reported no change in their outlook.

Developments during the survey period may have had a significant effect on the responses to particular questions. In particular, the fall in sterling may have increased respondents' optimism regarding export prospects. A positive balance of +27% reported greater optimism, compared with +18% in July and a negative balance of -2% in October last year. This increased optimism is underpinned by current and expected trends in new export orders (net balances of +6% and +27% respectively) and current and expected export deliveries (+11% and +17% respectively). Higher export prices are also anticipated by a positive balance of respondents. Hopefully, this represents a restoration of profit margins, made possible by the decline in sterling, rather than pressures on unit costs with adverse effects on competitiveness.

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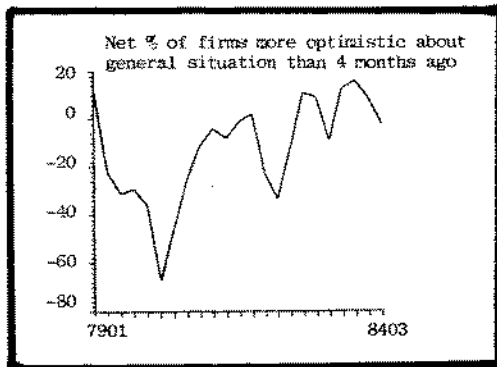
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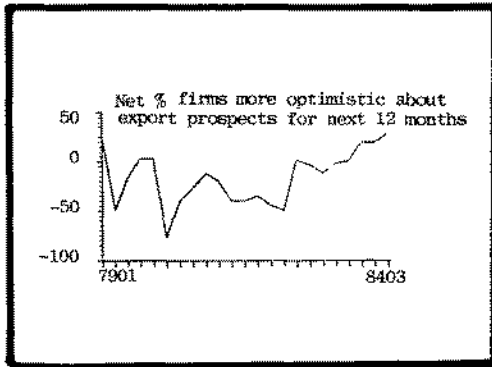
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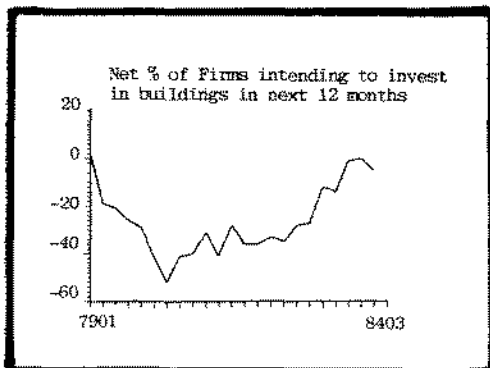
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Just as with the SBS, the trend of responses to the CBI questions on the total volume of new orders and output indicates that domestic markets are markedly less buoyant than export markets. A positive balance of CBI respondents reported increases in current and anticipated domestic orders and output, but, in contrast to the corresponding questions on exports, these positive balances are generally smaller than those reported in the Survey for the first three quarters of this year.



Though 56% of respondents report below capacity working, this proportion is some 4% lower than in July. Despite the persistence of surplus capacity the CBI survey, like the SBS, finds considerable evidence of a recovery in Manufacturing investment. A balance of 10% of respondents expect to authorise more capital expenditure on plant and equipment over the next twelve months compared with +6% in the July Survey. The main reason for such expenditure is, however, to



increase efficiency rather than to expand capacity. A balance of 12% of respondents expect to authorise less rather than more expenditure on buildings in the next twelve months. These overall trends in investment intentions confirm those of the SBS, with, in particular, investment in plant and equipment markedly more buoyant than investment in buildings.

While the CBI results do not suggest any significant improvement in the demand for labour, the responses to the questions on employment are better than might have been expected; a balance of only 1% report a fall in numbers employed in the past four months, compared with 9% at the time of the July Survey and 28% this time last year. Moreover, this balance of 1% compares with a balance of 12% who expected a fall in employment in the four months from July. A balance of 4% expect a downward trend in numbers employed in the next four months, again a markedly lower percentage than in earlier Surveys both this year and last year.

Like the SBS, the CBI results provide some pointers that industrial employment may be stabilising. However, in the absence of a noticeable change in the Government's strategy much depends on continued buoyancy in export markets. In this respect, the exchange rate, and measures to contain unit costs, are critical.

As reported in the previous issue of this Commentary, small (0-199 employees) and medium (200-499) firms are more confident about business prospects than large (500+) firms, and less than half the firms in these former categories report below capacity working. Output growth has been significantly higher in the small/medium firms in the past four months, and a much higher proportion expect further growth in the next four months. Amongst medium-sized firms, nearly half (47%) report an upward trend in numbers employed in the last four months, while only 6% report a fall. The figures for small firms are 24% and 14%, respectively, and for large firms 27% and 37%.

The expected trend in employment over the next four months displays a similar pattern between firm-size categories.

The general impression to be gained from this, although the pattern is not entirely consistent throughout the range of responses, is that large firms on average are lagging in the recovery. This raises some interesting, if speculative, questions concerning the rate of structural adjustment in large firms, and their flexibility in adapting to new market opportunities.

The results for the six individual industry groups in the CBI's Scottish Survey reveal varying fortunes and expectations. For the largest industry, Mechanical, Instrument, Electrical and Vehicle Engineering, the results tend to be worse than the all-industries sample in the four months to October (with respect to employment, new orders, output and domestic and export deliveries), but marginally better with respect to expectations for the next four months. Nevertheless, one in four firms are less confident about the general business situation and the net balance of respondents recording optimism about export prospects, although positive, is less than in any other industry. The results of the SBS, where this sector is disaggregated further, suggest a marked difference between the experience of Electrical and Electronic Engineering, where output and employment are increasing, and the much more depressed Mechanical Engineering and Transport Equipment sectors.

By contrast, CBI Textile respondents continue to report encouraging performance in both domestic and export markets. A balance of 35% report higher output in the past four months, with similar balances reporting higher domestic and export deliveries, and this sector has the lowest proportion of firms reporting below capacity working (30%). A balance of 26% reported higher employment in the four months to October, and the upward trend is predicted to continue, though at a slower rate. Again, these trends confirm those recorded for the broader Textiles, Leather, Clothing and Footwear sector by the SBS.

Results for the other four sectors identified by the CBI in Scotland are more variable and are not at all easy to interpret. A consistent theme, however,

as in the SBS, is strong optimism about export prospects and, with the exception of Other Manufacturing, general pessimism with respect to the domestic market. This contrast between home and foreign markets is particularly striking in the Chemicals and Metals and Metal Manufacturing industries. In the former, a positive net balance reported an upward trend in employment and output growth in the four months to October, but this was clearly dependent on strong export sales, and while exports are expected to continue growing, a large net balance expect employment to fall in the next four months. Business optimism in this sector seems to be declining. Results for the Metals industry are similar although domestic orders and deliveries have shown a stronger trend in the past four months. Below capacity working is much higher in this sector than in Chemicals (77% of firms compared with 42%) and half the Metal firms surveyed are less optimistic about the general business situation. The outlook in the Metals industry is, however, likely to be more coloured by the miners' strike than is the case in Chemicals.

The Food, Drink and Tobacco industry also shows a high level of below capacity working (63% of firms), and prospects for recovery are clearly centred on further growth in export sales. Despite expectations of higher exports a net balance of respondents expect output to fall over the next four months, though in apparent contradiction a positive net balance anticipate higher domestic (as well as export) deliveries, higher new orders and higher employment.

Finally, Other Manufacturing comes out strongly on a number of CBI indicators: net positive balances of 17% and 51% with regard to the general business situation and export prospects, respectively; a net positive balance of 38% reporting higher export deliveries, an equal number expecting higher exports over the next four months, and the lowest percentage of respondents reporting order books below normal (only one in ten).

CONCLUSION

The general tenor of both the SBS and the CBI surveys is that there is little immediate prospect of any acceleration in

the pace of growth of Manufacturing output. Indeed, the prospects for maintaining the present modest recovery depend strongly on export markets, which encouragingly, are perceived as remaining buoyant during the coming quarter and into early 1985. The recent fall in the sterling exchange rate should help to convert these expectations into reality.

Textiles, Electrical and Electronic Engineering, and Other Manufacturing industries, and small- to medium-sized firms, appear to be leading the recovery. Major traditional industries such as Metal Manufacture, Metal Goods and Mechanical Engineering continue to lag behind. Since these latter industries are large-scale employers, particularly in West-Central Scotland, there is little immediate prospect of a halt to the decline in manufacturing employment, though both surveys suggest that the rate of decline is slackening. Both surveys also confirm a strong recovery in manufacturing investment, particularly in plant and equipment. Investment in buildings, by contrast, appears much more depressed.

AGRICULTURE

This year has marked a turning point in the fortunes of agriculture in Scotland, largely as a consequence of changing European agricultural policy. In general, the demand for more farm production has ceased, with quotas being imposed on milk production, the almost certain application of price curbs on cereals, and rising mountains of beef. Stocks of beef are so high that chilled warehouses in the European Community are full and beef is being sent to Austria, Spain and Switzerland for storage.

As reported in the last issue of the **Commentary**, gross output of agriculture in Scotland fell in 1983. But within this overall picture, the fortunes of different sectors differ markedly. For example, the Scottish Milk Net Margins investigation for the year ended 31 March 1984, which is conducted by the Scottish Agricultural Colleges and funded jointly by the Department of Agriculture and Fisheries for Scotland and the three Milk

Marketing Boards, showed an average net margin per cow of £83 compared with £120 in the previous year. The net margin is the residual return to the farmer's management and his investment in tenant's capital, allowing for depreciation but without deduction of interest. The average value of milk output per cow, at £765, was only slightly higher than in the previous year, with little change in either yields or prices. The main cause of the reduction in margins was an 11% rise in feed costs.

A recent report from the West of Scotland College of agriculture showed continuing low income on hill and upland farms. Average management and investment income of -£620 per hill farm was recorded for 1982-83 (excluding breeding livestock appreciation from the calculation). This compares with an equivalent positive figure of £428 for the previous year. Upland farms fared marginally better over the same period with management and investment income increasing from -£1159 in 1980-81 to a positive £1,322 the following year. The latter figure represents a return on capital of 2%.

Scottish beef producers, however, are likely to benefit from the lower cereal prices expected over the next five years. One estimate suggests that this fall might be as much as 25% in real terms over that period.

Within an overall static level of food production, continuing viability will depend on farmers being able to lower significantly their unit costs and to differentiate their products in a quality sense. While geographical conditions mean that Scotland is a relatively high cost producer of livestock products within Europe (and two thirds of Scotland's gross farm output is based on animal products) the same conditions account for the fact that Scotland has a distinct advantage in quality. For example, two thirds of beef in Scotland comes from the specialist beef herd while in the United Kingdom as a whole two thirds of beef is a by-product of the dairy herd.

The Government's "redundancy scheme" for dairy farmers has been heavily over-

subscribed. The scheme was intended to secure a target elimination of some 2.25% (29.8 million litres) of quota, but more than 350 producers in Scotland have already offered to sell more than 120 million litres of quota. The Government have decided to accept applications first from smaller herds where dairying contributes at least one third of the farm income.

FISHING

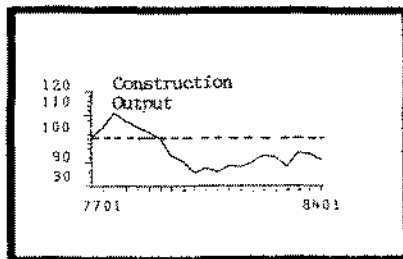
Finalised data show that UK vessels landed a total of 198,556 tonnes of fish at Scottish ports in the first half of 1984, 16% higher than in the corresponding months of 1983. The total value of the catch, at £86.2m, was 15.5% higher, giving a slightly lower average price per tonne relative to 1983. The demersal catch was increased marginally, but there was some variation among individual species. Landings of cod and haddock, under the influence of quota restrictions in certain waters, were low relative to 1983, with decreases in volume of 7% and 2% respectively. Earlier this month, quota restrictions on haddock catches were lifted for the important North Sea area and also for the West Coast fishery, allowing some modest increase in activity during the remainder of the year. The volume of whiting landings was 10% higher than in the first half of 1983 but it is unlikely that the whiting catch will persist at these high levels. The West of Scotland whiting fishery has been subject to quota arrangements since August, and two recent decisions have reduced the maximum weekly catch by half. Finally, the shellfish catch rose by almost 10% relative to 1983 and prices remained strong with an average increase of 8%.

Two significant problems beset the European fishing community at present. After only ten months of operation, the CFP's operations were criticised, following a decision taken by the Community to relax restrictions placed on the by-catch for Danish vessels engaged in industrial fishing for Norwegian pout in the North Sea. The by-catch consists of immature stocks of white fish, including cod, haddock and whiting, and the limit set for Danish boats has been raised from 10% to 18%. Despite assurances that the quantity and composition of these catches will be monitored monthly and that the concession will end in May 1985, there is

a great deal of concern over the effect this will have on breeding stocks in the North Sea.

The second area of contention also concerns the North Sea, and the allocation of its stocks between the EEC and Norway. A joint fisheries policy exists for the management of common waters and stocks, but agreement on the respective shares of herring for 1985 has been elusive, delaying decisions over other important stocks. A dispute over herring allocations led Norway to determine unilaterally the allowable quantity of herring for her fleet and this situation could continue in 1985. The combined catch of herring from the North Sea to date this year has exceeded the level advised by marine scientists, and, were this to continue into 1985, the rate at which herring stocks are building up may be adversely affected. The dispute between the EEC and Norway over common stocks, not just of herring, is of particular significance to Scottish fishermen because of the high proportion of their fishing activity which takes place in the shared waters.

CONSTRUCTION



In the second quarter of 1984 the value of new orders received by contractors in Scotland was £318.3m, 16% lower than in the corresponding period of 1983. Against the first three months of 1984, new orders were down by 6%, but the comparison is distorted by the fact that the higher first quarter total was due entirely to the exceptional value of road and harbour work received in that period. Hence, between the first and second quarters, new orders actually rose for most categories of work. Notable among these was new private sector housing,

where the decline experienced over the previous nine months was stemmed by contracts totalling £82m, a rise of 42% over the previous quarter's low. There was a sizeable rise in orders for new industrial work, from £25m to £42m, the result of a large number of relatively small projects below £2m. There was also an increase in the flow of orders for entertainment projects, lifting the total for the quarter to almost £14m. Orders for shops rose by £6m to £15.4m, and further growth in this area is implied in the new Scottish Business Survey, in which retailers reported an upward revision in their investment plans for new building in the near future.

Overall, orders from the private sector rose by £60m to their highest quarterly level for some time. This contrasts markedly with the public sector total, which fell to a dismal £123.5m, the lowest figure recorded since mid-1982. Rises in orders for public sector housing, hospitals, transport and energy supply work did not compensate for declines in most categories of public sector orders. Response from construction firms to the Scottish Business Survey in September suggests that this pattern will be repeated in the latter half of 1984. Looking back over the July-September period, 57% of respondents indicated that the volume of new orders received from the private sector had risen, whereas in most cases public sector orders had been stationary or declining. It was anticipated that this would occur again in the last quarter of 1984, with some worsening of prospects for public sector work. Although work in progress is expected to have risen in the latter half of the year, it is unlikely to be enough to counteract the impact of weak future orders on employment. The outlook for jobs in construction is, therefore, gloomy with a balance of 20% of respondents anticipating that employment, particularly of manual workers, will fall by the end of the year.

The number of intended starts in new private housing, as registered with the NHBC, fell substantially for Scotland in the third quarter of this year from the record level of the previous quarter. Compared to a year earlier, registered starts of 3,000 in the third quarter were down by almost 12%, while British figures showed a reduction of just over 6%. This

may have been a response by housebuilders to the large shift in interest rates which took place in July, prompting them to delay some new starts. Total intended starts recorded in the nine months to September were only marginally below those of the same period in 1983 for Scotland, whereas there was a reduction of more than 5% in Great Britain. Thus, the Scottish private housing sector remains in a fairly buoyant state. Flats and maisonettes continue to feature strongly in new house construction in Scotland, regularly forming more than 30% of the total number of starts, well above the British average. At the upper end of the market, detached properties typically account for a quarter of the Scottish total, less than the average for Britain.

Information from building societies indicates that house price inflation in the UK has decelerated, and there is evidence of a similar occurrence in Scotland. The Nationwide House Price Index shows a 1% decline in the average price of property sold in Scotland in the third quarter, bringing the annual rate of increase to September, down to 8%. The average price of a house in Scotland, according to this index, stands at £29,660. This is below the UK average but ahead of that in a number of the English regions.

New construction work announced in the last three months is again characterised by numerous small projects, with building work to the fore. D & J Ogilvie (Builders) of Bannockburn have received a £2m contract to construct industrial and retail units at Wishaw, while Wimpey Construction were recently awarded a management contract, worth £2m, for the erection of a factory and office complex at West Pitkerro Industrial Estate, Dundee. Miller Construction (Northern), a subsidiary of the Miller Group, have received a £2.9m order from BP to construct an extension to an administration building at Sullom Voe, for completion by August 1985. The same company recently received orders for three more building projects, with a combined value of £2m. A long-established building, the Doge's Palace in Glasgow, is undergoing an internal transformation to house twenty-five specialist industrial units. The £1m contract, from the SDA, is being undertaken by Henry Boot and is expected to be completed in mid-1985.

The SDA was one of the parties who successfully negotiated to have Glasgow chosen as the site of the 1988 National Garden Festival. The location, at Princes Dock, will undergo demolition and clearance work, and it is hoped that, among other developments, a bridge will eventually be built to link the Dock with the Scottish Exhibition Centre. The festival means that the site owners, Laing Homes, will postpone their own development plan for the area, which constituted a major project in its own right, involving more than 1,000 homes, a leisure and retail complex, and a yachting marina. Laing will instead carry out a housebuilding programme on seven other city sites which have been released to the company by the regional authority.

The oil refining firm, J O Buchanan of Renfrew, are investing £9m in the construction of an oil solvent processing plant and tank farm. The chosen site is on the Clyde at Old Kilpatrick where the existing jetty will be strengthened to accept large vessels carrying crude product from Venezuela, and from where the finished product will be exported.

The piers programme for the Western Isles, which has financial assistance from the EEC, is now underway. The first project to be undertaken is that of the Kallin Pier in North Uist, at a cost of £600,000, and it is hoped that tenders for three more developments will go out before the end of the year.

Finally, the second stage of the M74 extension between Draffan and Millbank in Lanarkshire was awarded in September to A Monk & Co of Stirling. The total cost of this phase is £7.4m, while the £12m first phase between Wellburn and Poneil is already in progress.

ENERGY: OIL AND GAS

UK crude oil production in the period from June to August 1984 totalled 29.0m tonnes, an increase of 7.4% over the equivalent 1983 period. Natural Gas production in the second quarter was 1.1m tonnes. Total UK inland consumption of fuel was

35.8m tonnes of oil equivalent, of which 53% was actual consumption of petroleum.

Finally bowing to market pressures, Norway cut the price of its North Sea oil by \$1.50-\$1.60 per barrel in early October. Britain responded by lowering the price of Brent reference crude by \$1.35 per barrel, and, in turn, Nigeria, which desperately wishes to maintain oil production because of the needs of its domestic economy, reduced its oil price by \$2pb. In an effort to prevent any collapse in oil prices, OPEC agreed to cuts in members' production quotas, reducing the collective production ceiling by 1.5mbpd. Saudi Arabia have undertaken to bear the brunt of the cuts in an attempt to support the existing price of \$29pb for Arabian Light. However, even after the OPEC decision, spot prices were still \$1pb or more below reference prices and American producers began announcing reductions in the reference prices of major US crudes. It is worth noting that a general fall in oil prices is not necessarily harmful to the UK economy as a whole, especially if it leads to lower interest rates and higher world activity. Indeed, if a fall in the oil price leads to a fall in the sterling/dollar exchange rate, the UK government may not even lose any tax revenue, since tax is levied on the dollar price of oil.

One loser in the attempt to maintain the 'official' price of UK crude in the face of weak demand has been Britoil, which over the summer was compelled to buy crude from North Sea producers at the reference price of \$30pb that it could only resell at \$28-\$29pb on the spot market. The company has made multi-million pound trading losses in these transactions, which will apparently be covered from government (ie taxpayer) funds.

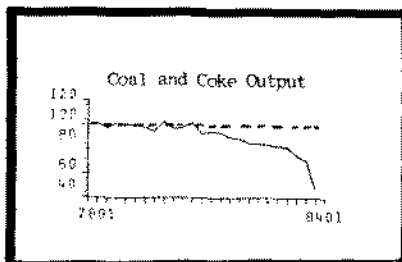
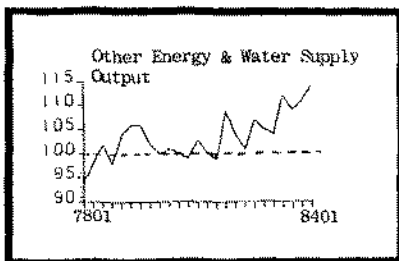
In spite of objections from some analysts who still feel the entire deal is unnecessary for the UK, the British and Norwegian governments have apparently reached agreement on most points of dispute concerning the proposed £20 billion plus purchase of Sleipner gas. The main remaining problem is over where Natural gas liquids from Sleipner should be landed. The UK government prefer Flotta, but the Norwegians prefer Teeside, where they have special tax benefits as

well as existing pipeline and processing capacity.

A possible indication of future development trends in the 'mature' area of the North Sea oil province was the bringing on-stream in October of the tiny Deveron field. Owned by Britoil, this field, with only 14m barrels of reserves, is producing from one well as a satellite of Thistle. This satellite production method is the only way, given existing technological capabilities, that such small fields can be developed economically.

In June 1984 Scottish employment wholly associated with North Sea oil was 64,046, a fall of 2,680 from December 1983. In geographical terms, the largest employment decline was in Highland area, which lost 4,150 jobs over the period. Declines were also recorded in Orkney, Shetland, Tayside and Strathclyde. On the other hand, Grampian, the Western Isles, Fife and Central/Lothian all experienced net employment gains over the six months period.

ENERGY: COAL, ELECTRICITY AND WATER



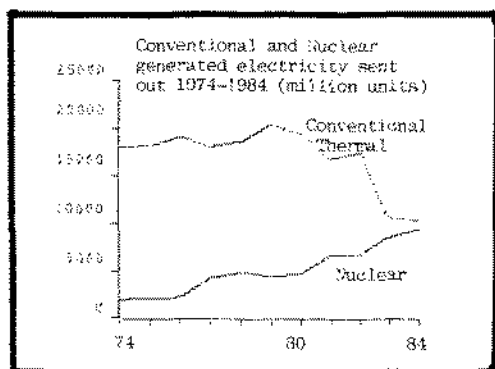
Other energy and water supply, and coal and coke show contrasting developments in output over the first quarter of 1984. Not surprisingly, the coal dispute has resulted in a fall of 33 points in the coal and coke index for Scotland to 48. The UK index fell over the same period by 29 points to 59. The other energy and water supply index for Scotland continued to climb to 114 with a rise of 2 points. However, this still lags well behind the index for the UK which now stands at 129. The latest Treasury Economic Progress Report (October 1984) estimates that the level of industrial production in the British economy in the three months to July has been reduced by 3.5% as a direct result of the coal strike. Of this, 2.75% is accounted for by coal production itself. Thus, only around 0.75% of production has been lost elsewhere in the economy, although, of course, other sectors will suffer much more dramatically if power cuts are experienced during the winter months.

On present evidence it is believed that there will be no power cuts brought about by the necessity to conserve stocks until the early months of 1985. The CEBG has 14m tonnes of coal stockpiled at power stations (representing around 2-3 months supply) and has increased the rate of oil-burn and nuclear power generation over the late summer in order to conserve these stocks. There has also been an increase in imports of coal and in production from opencast mines, which are licensed to private operators by the coal board and do not use NUM labour. Around 20m tonnes of coal remain at the pitheads and will have to be moved to the power stations in the next three months if the strike continues.

In Scotland there are unlikely to be power cuts in the foreseeable future, ie until mid-1985 at the earliest. This is principally because the mix of power sources is quite different from that in the CEBG area, with gas condensates and nuclear and oil fuel being able to provide all the electricity Scotland requires. Much more worrying for those concerned with the coal industry in Scotland are the harmful effects on actual and potential markets. A decision on whether to convert the Kilroot power station near Belfast Lough from oil to coal has been delayed by the present dispute. It seems almost certain that were conversion approved, the coal inputs would be

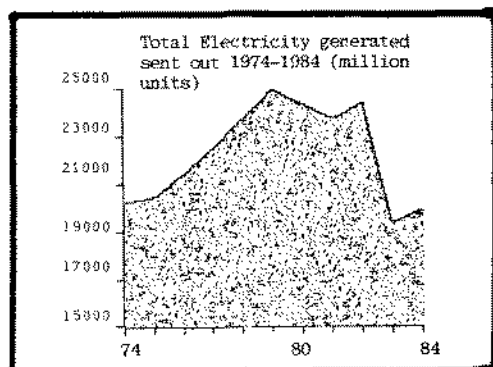
supplied from the Scottish coalfield. Export contracts have already been lost in Scandinavia as a result of the strike and the coal board is claiming that Polkemmet colliery will not begin production again for at least 15 months even if the strike is settled soon. Thus, coal supplies for the Ravenscraig steel works will have to continue to be imported through, and transported from, Hunterston for some considerable time.

The future of the Scottish coal industry will depend largely on developments in the electricity generation industry. The SSEB has been diversifying its generation base for the last two decades - in particular into nuclear power. Graph 1 shows the rise in nuclear generated electricity sent out to consumers as at 31 March of each year (and the consequent fall in conventional thermal generation).



Since March this year nuclear power will undoubtedly have overhauled conventional thermal (which includes coal and oil) as a source of electricity generation. This increase in nuclear generation with an implied growth rate over the ten year period of 15.5% pa, must be seen in the light of total electricity generation sent out (Graph 2). This has fallen from its peak of 25bn units in 1978-79 to just over 19bn units in the year ending 31 March 1984. The massive fall in total electricity generation in 1982-83 was mainly due to the closure of the Invergordon aluminium smelter. Over the period 1974-84 electricity sold to consumers (in millions of units) increased by only 2.8%, an implied annual growth rate of 0.3%. The changing industrial structure in Scotland with the relative

decline in high energy-using industries such as heavy engineering, and the rise of light manufacturing and services has contributed to this slow growth, as has the success of the energy conservation lobby.



At present the increasing proportion of electricity generated by nuclear power is benefitting Scottish consumers. As shown in the table the cost per unit of nuclear power is 0.71p lower than that generated by conventional means. However, the fuel costs of nuclear power have been rising slightly faster than those for coal or oil and are set to increase even more quickly as the heavy capital charges for the Torness plant come on stream.

All-in costs of generation, including capital charges and nuclear decommissioning provisions (1983-84)

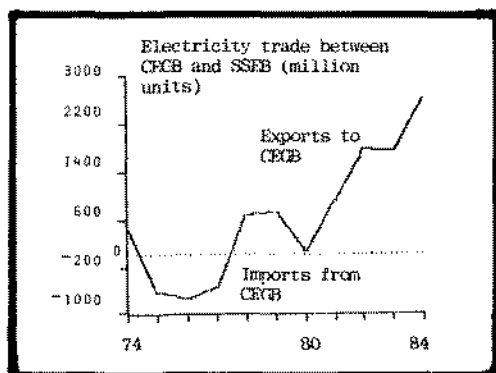
Coal, oil and gas turbine	2.93p per unit
Nuclear	2.22p " "
Hydro	0.44p " "

Source: SSEB Accounts, 1983/84

As at June 1984 the first unit at Torness was 65% complete and the second unit 50%. The construction programme has been running to schedule and it is expected that the plant will become operational on schedule in 1987. This will add 1,400MW of capacity to the SSEB system and may lead to further reductions in the amount of coal burnt in the area. The question of whether or not coal-burn will be

FOOD, DRINK AND TOBACCO

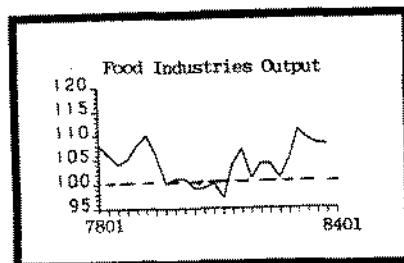
reduced below present levels in 1987 will depend to a large extent on three further factors. First, the Boddam, fired by natural gas liquids power station at Peterhead is currently supplying around 20% of the SSEB's electricity needs. During the course of the next year it is possible that it will lose its feedstock source either entirely or partly to the Moss-morran petrochemical refinery. Depending on whether or not Boddam can replace this feedstock with either gas condensates or oil (or a mixture of both) the SSEB may have to increase its coal-fired electricity generation (by anything up to 1.5m tonnes per year). Secondly, exports of electricity "down the wire" to the CEGB have been increasing rapidly over the last few years (Graph 3) and reached 2.5bn units in 1983-84. In his annual



statement for the financial year just ended the SSEB chairman stated that, before the industrial action in the coal fields, this rate of export was the equivalent of 1.5m tonnes of coal per annum. Although the coal strike may have damaged this rate the SSEB has continued to export electricity south from the oil-fired Inverkip station. Thirdly, it remains to be seen how the present coal dispute will affect the government's grant-aided programme of converting industry's existing oil-fired boilers to coal. UK-wide it was expected that this year industrial demand for coal might have risen by 0.3m tonnes through this conversion programme. This figure is now unlikely to be reached. It remains to be seen whether these three factors will compensate for the reduction in demand faced by the coal industry with the completion of Torness. If they do not, the struggle to maintain the coal industry in Scotland at its present level after the miners' strike may just be beginning.

The results of the Scottish Business Survey for the Food, Drink and Tobacco sector as a whole indicate growing optimism about the general business situation. Continued improvement in orders and sales are expected, particularly amongst exporters. 58% of respondents expect an increase in the total volume of export orders in the next three months, whilst 71% expect a growth of sales to export markets. An upward revision of investment intentions compared with three months ago was also reported, with the introduction of new technology and attempts to improve efficiency cited as the dominant influences. Prospects of increasing employment, however, remain depressed.

Output of the food manufacturing industries in Scotland in the first quarter of 1984 remained at the previous quarter's index level of 108. But taking



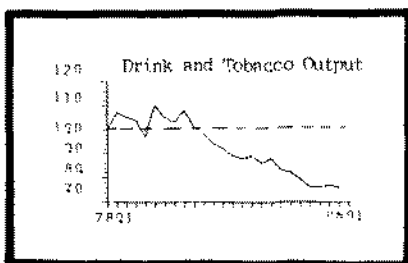
the 12 months to March 1984 over the previous twelve months, output rose by 5%, a better performance than in the UK as a whole where production remained stationary over the same period.

The Scottish food processing industries employ over 30,000 people whose prospects are affected by developments elsewhere in the food chain which links primary production, manufacturing, distribution and consumption. Buoyancy in the retail trade, particularly food retailing, should encourage confidence among the food processing industries. For example, as part of a large-scale extension of Marks and Spencer's store in Argyle Street Glasgow, space devoted to their food section was increased by 70%,

proportionately more than any other section. Other stores which have recently opened or expanded have also reported greater than expected sales in their food departments.

United Biscuits, the Edinburgh-based restaurant, fast-foods and biscuits company, increased pre-tax profits only slightly in the six months to July, from £34.5m to £34.6m, on a turnover which had increased from £718.4m to £847.1m. According to the company, all UK divisions performed well, increasing profits by 31%, but trading profits in US fell by almost 12% in the same period. Acknowledging the degree of competition in the US where United Biscuits is already second largest in the field, the company opted in the short-run for lower profits overall to increase market share on US operations.

The almost continuous decline in output of Scottish drinks and tobacco industries since 1979 appears to have given way in



the last year to relative stability. This primarily reflects developments in the whisky industry which tends to dominate trends in this sector. The index level of 76 for the first quarter of 1991 shows little change over the previous three quarters but is still some 25% down on 1980 levels.

In the wake of Scottish & Newcastle's acquisition of a 29.34% stake in Moray Firth Maltings, the second largest supplier of malt to the whisky industry, the Distillers Company has also moved into the commercial barley market. The formation of a subsidiary, Distillers Company (Cereals), to manufacture and sell malted barley to brewers, distillers and

the food trade in both domestic and overseas markets will provide strong competition in the cereal processing market.

Hoping to have correctly identified a shift in the tastes of Scottish drinkers, Bacardi & Co have launched a new drink "Beziq" on the Scottish market. To be distributed by Tennent Caledonian Breweries, it is described as a tempered spirit with a citrus twist. Average weekly household expenditure on alcoholic drink is higher in Scotland than in the UK and according to the company survey of the market, per capita consumption of Bacardi rum in Scotland is more than double the UK figure.

The proposal by Edinburgh District Council to increase the district rate from 29p to 65p from next April came under attack by the Edinburgh Licensed Trade Association. Their rating adviser has claimed that the increase proposed would mean more than 3p on the pint, as well as more expensive meals and hotel accommodation, with adverse consequences on employment and investment.

WHISKY

The relative weakness of sterling against the dollar remains a potential source of gain in the otherwise stagnant outlook for whisky producers. As the industry enters the traditionally heavy sales period around Christmas and New Year, higher export sales to the large US market will be expected to counter the likely flatter demand of the domestic market. This boost in price terms may counter the adverse shift in tastes to "white" spirits in the US which has been forecast to produce a more than 1% fall in whisky consumption in the next year.

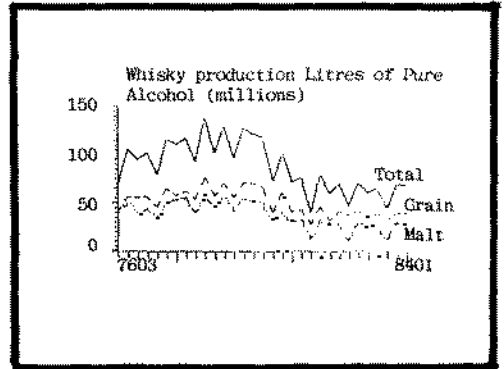
The likelihood of a continued change in tastes in the US market over the next decade may make the recent NEDO report on the distilling industry of special interest to the Scotch Whisky Association and to the leading firms in the industry. This report suggests that the whisky industry should take a more aggressive stand in the various EEC Courts of Appeal

over the discriminatory taxes and duties presently levied on whisky in many member countries, particularly as the EEC now forms the largest market for Scotch whisky with 29% of sales against the US market's 28% and the UK's 18%. Litigation in the past has had some success in reducing the anti-whisky protectionist barriers imposed in both France and Italy. A more aggressive stance may increase the industry's share of a growing market rather than wasting precious advertising and marketing resources in trying to maintain its share of a declining one.

The indications from the various companies reporting their annual figures in the last quarter are of a static or only slightly growing market in which there is active redistribution of market shares. Distillers Company Limited appear to be weathering the storm least well of the major companies. Following the announcement during the summer of the closure of its VAT 69 and White Horse bottling works in South Queensferry and Glasgow, reports have been circulating that DCL is contemplating closing a number of its 34 malt distilleries. Eleven distilleries were closed by the company in 1983 with the loss of 500 jobs. The chairman stated at the annual meeting that the depressed level of consumer demand showed no signs of improvement and that this year's sales will probably only match last year's. This points to further cuts in productive capacity, especially given the level of over-stocking in the industry. Union forecasts are that as many as 22 of DCL's 34 existing operations may face closure. While the eventual figure is likely to be lower than this, industry analysts agree that more closures are likely. At present DCL plants are operating at only 30% of capacity with a long summer shutdown and four-day weeks.

The predicament of DCL contrasts with the performance of two of its major rivals, Bells and Highland Distillers. Bells pre-tax profits rose from £31.3m to £35.2m (12.5%) in the year to 30 June 1984. With whisky sales accounting for £34.6m or 98.3% of profits, the company maintained a more than 20% share of the UK whisky market. But falls in the sales of "The Real Mackenzie" meant that Bell's actual market share fell from 24% to 22%. However, on the production side the group's four highland malt distilleries achieved "normal" capacity ratings for the year and their lowland distillery,

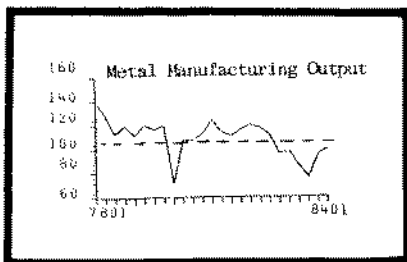
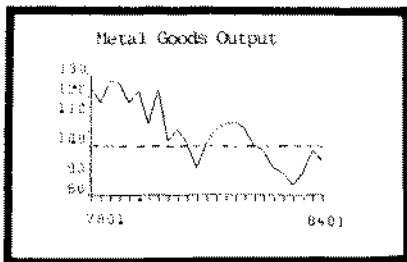
Bladnoch, came back into operation in 1983. The best performance over the year was achieved by Highland Distillers. Their profits rose in the year to August by 17% to £8.27m. The company holds market shares of 22% in Scotland and 10% in the UK as a whole. Sales volumes, mainly of the "Famous Grouse" blend, were up by 24% in England and the company's distilleries were operating at 50% capacity as compared with 35% in the previous year.



However, in the industry as a whole, whisky production figures from the third quarter of 1976 to the first quarter of 1984 show a distinctly downward trend (see graph). Total whisky production is the sum of grain and malt whisky production and, although malt production displays much greater seasonal variation, declines in output are manifest in both types. From a high point of 139.8m litres of pure alcohol in the fourth quarter of 1978, output had more than halved by the corresponding quarter of 1983. There seems little doubt that this trend is set to continue in 1984.

Two other pieces of company news were reported in the last quarter. First, Invergordon Distillers have bought the brand name of "Glayva" from Ronald Morrison and Co. The purchase of the whisky-based liqueur, which Invergordon already produces under licence, cost £232,500. Secondly, Whitbread, the giant brewing company, have bought the sole US distribution rights of "Cutty Sark" whisky from the Buckingham Corporation for £92m. This is an expansion of its Scotch interests which include a majority stake in another US distributor, Highland Distillers Corporation.

METAL INDUSTRIES



The Index of Production suggests that in the first quarter of this year Scottish output from the metal industries fell. However, the recent Scottish Business Survey indicates that performance may have improved in the later quarters. 60% of respondents reported increased orders over the past three months, with 41% anticipating further new orders over the next quarter. Just under 45% of respondents had experienced increased sales and expected this to continue.

Despite the miners' strike, steel production in the UK has been maintained at higher levels than last year and Scotland has fared better than other parts of the country. While lower than last year in Wales and in Yorkshire and Humberside, output in August was more than 12% higher in Scotland than a year earlier.

There have been important developments, however, in the external factors affecting the UK steel industry generally which pose a renewed threat to Ravenscraig, given that the Motherwell complex appears to be

the marginal plant in the BSC scheme of things. Against a background of substantial excess world capacity, the United States has decided to restrict total steel imports to 20.5% of the US market for the next five years, with imports of finished steel being reduced to 18.5% of US consumption. Current imports to the US exceed these levels and the US restrictions are likely to intensify competition. European producers are cushioned by the arrangement guaranteeing 5% of the US market for finished products. Canadian and Japanese producers also have arrangements with the US. The remaining small market share will be competed for by other suppliers, who are also likely to seek markets elsewhere more actively.

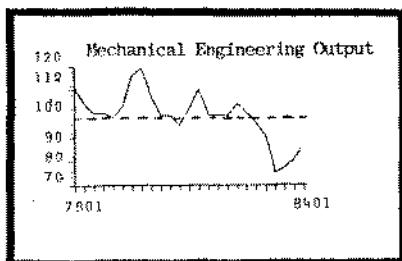
At the same time the European community made initial moves to remove its complex system of controls. Increased quotas were established in October for imports into the Community, the expectation being that European suppliers should be able, as they complete by the end of 1985 the restructuring set out in the Davignon Plan, to compete with imports. But even if EEC producers meet their current 1985 capacity targets, excess capacity will remain. With prospects of overcapacity in Europe and of intensified competition, fears were expressed recently that the EEC will require still further capacity reductions.

Prior to the miners' strike, BSC aimed to break even over the current year but still held that excess UK strip capacity and the need to substantially reduce costs to earn a positive return on investment pointed to closure of a strip mill. BSC seemed to have accepted, however, that closure of Ravenscraig or of any other major plant would be an inappropriate response to the employee loyalty shown during the miners' strike. In addition, completion of BSC's corporate strategy which, it has been thought (see last **Commentary**), might signal Ravenscraig's closure has been delayed until the effects of the miners' strike can be assessed. But in November union officials at Ravenscraig claimed the existence of a management document containing an outline of BSC's investment intentions. The alleged contents are consistent with fears expressed in earlier **Commentaries** that future BSC investment will be concentrated in the two Welsh strip plants. If this is correct, the long-term future of Ravenscraig is again thrown into doubt.

With current depressed demand for final products containing steel inputs, steel users have expressed concern over the frequency and extent of BSC's price rises. Although originating in EEC agreements, it is alleged that BSC has been applying the price increases more actively than other European producers. This may lead British consumers to turn increasingly to those suppliers obtaining increased access to Community markets.

After earlier reductions in its labour force North British Steel has continued to face financial problems and to pursue restructuring of the group finances. Some breathing space has been provided by Lothian Regional Council's decision to allow deferment of the company's rates payments until next year. Having disposed of its assets the former wire-rope manufacturing company, Martin-Black continues to seek another investment outlet for the proceeds which is consistent with the management's industrial expertise.

MECHANICAL ENGINEERING



The Index of Production for Scottish Mechanical Engineering firms leapt up by 6 points in the first quarter of 1984. This was in marked contrast to the index for the whole of the UK, which fell by one point over the same period. Most other engineering sectors in Scotland also fell back slightly. This quarter's results are, in fact, somewhat misleading. Production by Scottish firms in the first quarter of 1984 remained below the level of the first quarter of 1983. The apparent improvement is due to a bunching of figures, resulting from the completion of several contracts for the oil industry during this quarter.

NEDO predicts a fall-off in offshore orders over the next year. A number of orders had come in at once following two years of almost non-existent demand, while off-shore operators negotiated an improved tax deal with the government. These orders are now coming to an end. The Industry Department for Scotland report that employment wholly associated with North Sea oil in Scottish Mechanical Engineering fell by 3,000 to 15,443 between December 1983 and June of this year.

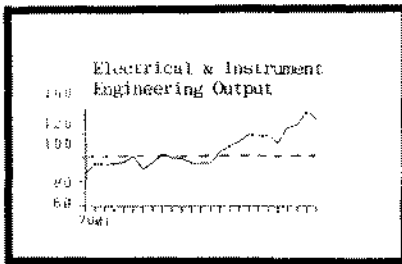
The results of the Scottish Business Survey tend to confirm that the industry in Scotland is experiencing considerable difficulties: 39% of respondents are less optimistic about the general situation in the industry than was the case three months ago; 45% of firms report that the total volume of new orders has gone down over the last three months; and only a net balance of 5% of respondents believe that the forthcoming quarter's sales will increase. Scottish firms appear to have been unable to take advantage of the fall in sterling against the US dollar and, to a lesser extent, against other European currencies. Only 6% of respondents reported a rise in export sales in the quarter to September, while 28% reported a fall. Higher exports over the next three months were anticipated by only 7% of respondents, with 27% expecting decreases.

Trafalgar House confirmed that it was going ahead with the takeover of RGC oil construction yard at Methil, after an unsuccessful bid by the Scottish Daily Record and Sunday Mail for the yard. Trafalgar House denied that its takeover of the Methil yard would have caused it to sell off the Scott-Lithgow yard on the lower Clyde. The company claims that it is intent on building an integrated British offshore construction company. The Office of Fair Trading, is at present examining requests from a number of organisations objecting to the Trafalgar House takeover and demanding that the matter be referred to the Monopolies & Mergers Commission.

Both McDermotts of Ardasier and Highland Fabricators of Nigg have secured important contracts in the last quarter (see Regional Review) from Marathon Oil for the Brae B field. The workforce at Nigg

was reduced to only fifty care and maintenance staff when work on the Conoco tension leg platform was completed in May. Highland Fabricators have also placed a bid for ten more contracts. Any hopes of returning to a workforce between 1,200 and 1,500 will depend very much upon the outcome of the current bids.

ELECTRICAL AND INSTRUMENT ENGINEERING



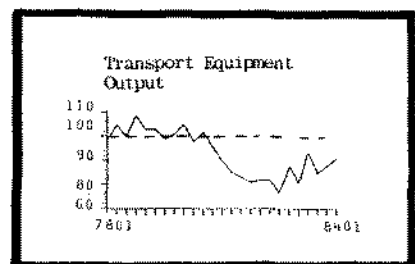
It is clear from the Scottish Business Survey that firms in this sector remain very optimistic: 58% of respondents have experienced an upward trend in new orders over the last three months; 25% expect this trend to continue over the next quarter; 60% have enjoyed an upward movement in volume sales over the last quarter; and 78% think that this will continue for the forthcoming quarter. As far as employment is concerned, 44% of firms report increased employment over the most recent quarter, and 57% believed that job gains will continue over the next three months.

A number of recent developments are consistent with this continuing buoyancy and optimism. The Electronics Location File has predicted that Scotland will enjoy a net gain of more than 1,000 electronics jobs by the end of 1985. The majority of these jobs, about 770, will be in companies employing fewer than 250 people. The Japanese group NEC, has announced a further £75m worth of investment which will create an additional 450 jobs in its microchip plant at Livingston. NEC currently employs 200 people, mostly young, at Livingston. Apollo Computer, the US manufacturer of 32 bit multi-user work stations, plan to make Livingston its European manufacturing base. The company is to invest £2m in a pilot plant to handle servicing and

distribution. Around 150 jobs should result. SCI UK, an Alabama based company, which does substantial sub-contract assembly work for IBM, is to increase its Irvine workforce by 150. The Irvine factory, which was recently opened, already employs 400 people. Most recently, Indy Electronics Inc of Manteca, California has announced a £20m project which over five years will generate 500 jobs in the Irvine area. The company specialises in the assembly and testing of integrated circuits.

This sector continues to perform well but two discordant notes have been struck in the recent past. First, while employment opportunities continue to expand, there is some evidence that companies are encountering difficulties in recruiting some types of labour, particularly highly-skilled labour. Competition among companies for available labour will raise wages but, given the relative capital-intensity of electronics, this will have only a limited impact on prices and competitiveness. Secondly, the CBI has identified a lack of responsiveness and motivation among sub-contractors in Scotland. Japanese and American companies continue to dominate the supply of capital equipment for electronics. However, domestic suppliers, able to provide greater certainty of delivery and protected by lower transport costs by dint of location, fare relatively better in supplying inputs such as printed circuit boards.

TRANSPORT EQUIPMENT



The absurdities in the Scottish Index of Production for transport equipment continue. According to the latest Scottish Office releases the Index rose from 88 in the fourth quarter of 1983 to 91 in the first quarter of 1984. In the

last **Commentary** it was reported that the 1983 fourth quarter figure had fallen to a new low of 77. This eleven point revision in a three month period, shown in the table makes reference to the Index of Production as an indicator of industrial activity at any one point in time a nonsense. In the **May Commentary** disquiet was expressed about the disturbing fluctuations in the Index for a measure which is reportedly 'seasonally adjusted' but those reservations pale into insignificance when such a periodic revision is considered.

INDEX OF PRODUCTION FOR TRANSPORT EQUIPMENT

		Figures reported June 1984	Figures reported August 1984
1982	Q1	82	82
	Q2	82	82
	Q3	79	77
	Q4	88	88
1983	Q1	82	81
	Q2	95	94
	Q3	87	85
	Q4	77	88
1984	Q1		91

The fluctuations and revisions of the Scottish Index can be contrasted with the apparent stability of the UK index which stood at 90 throughout 1983 and has fallen by one point to 89 in the first quarter of 1984. These differences are impossible to reconcile, given that the Scottish Office offers no explanation for such drastic revisions and little comment on the causes of movements within industrial sectors. On intuitive grounds, however, the August figures would seem more plausible given the expansion of production in the British Aerospace operation at Prestwick due to increased orders for its 'Jetstream 31' aircraft.

There have been developments in the negotiations to find a buyer for the Leyland Trucks plant at Bathgate over the last three months. Joint talks have taken place between the unions, BL management, the Scottish Development Department and Marshalls, a Lincolnshire-based tractor manufacturer over the possibility of the latter's part-takeover of the engine making operation at the West Lothian works. If a deal were reached it is thought that up to 750 of the remaining

1,300 jobs at the plant might be saved. However, there may be difficulties in concluding a deal as Leyland management may be reluctant to allow a potential competitor to continue producing engines in the UK while their own plans for an engine-manufacturing facility (operated by the American Cummins organisation) are not yet finalised. Indeed, until plans are finalised Leyland are dependent on the goodwill of the Bathgate workforce in order to secure a steady flow of engines and parts for their 'Roadrunner' truck up until the new MT211 model comes on stream in 1986. The treatment of the Bathgate workforce by Leyland management in the last year may have stretched that goodwill to the limit.

On a brighter note, AC Scotland, the recently started select sports-car manufacturers have secured a £25m, export deal with the US. The Hillington-based company which employs 30 men has been contracted to supply 200 cars a year for the next ten years. Further company news on the vehicles front is that the Glasgow company Swift Trucks which include coach-building and vehicle repairs facilities as well as a vehicle hire operation have merged with Transport Development Group in a £2m deal. The latter's interests throughout Europe seem set to provide a much wider market base for the Scottish company. No jobs will be lost in the merger process.

There has been some evidence in the first half of 1984 of western European shipbuilders increasing their share of new ship orders. 1.3m registered tons of orders were placed at west European yards (compared with a total of 1.9m tons in the whole of 1983) while the Japanese share of new orders fell back. In Scotland, Yarrows have been awarded the first £100m order for the navy's new Type 23 frigate. This is confidently expected to be the forerunner of a number of such orders and it is possible that the yard may land all eight (worth £800m) and so ensure jobs for the present workforce of 5,500 well into the 1990s. With this new order Yarrows now have £500m worth of orders on their books. Govan Shipbuilders does not have orders of such value but there are potential contracts in the offing. At present the yard is building three coal carriers for the CEBG and is negotiating over a vessel for Hong Kong. However, it has also been involved in a joint bid (with a Dutch yard) for an order to build two North Sea ferries worth £40m each.

If these contracts are won they will relieve much of the concern about the yard's immediate future.

A campaign has been started in Aberdeen over the future of the Hall Russell warshipbuilding yard, but on this occasion the proposals for privatisation are not the centre of the attack. The workforce and local pressure groups are worried that when the yard is sold into private ownership it will be bought over by an oil company for its prime site only and will then be closed as a shipbuilding concern. Quite rightly, they are pressing for government assurance that this highly successful east-coast yard be sold as an ongoing operation with guarantees of its continued development as a shipbuilding concern.

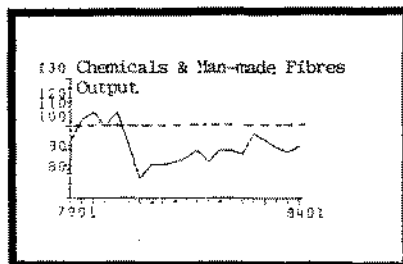
Another part of BS warship division, the Barclay Curle yard on the Clyde, has been put up for sale. Since nationalisation it has given up its engine building operation and concentrated on the launching system for the 'Sea Dart' missile. However, the last in a set of six systems is due for completion in March and the present workforce of 106 (having fallen from a peak of 420 a few years ago) will be without work from then on unless a buyer can be found. The Navy has no plans to place new orders for this particular system.

Finally, half of the old Henry Robb Leith shipyard may soon see the re-introduction of shiprepair and shipbuilding facilities. A consortium of three businessmen under the name of Garlest Limited are interested in the presently unused site for an engineering and shipbuilding enterprise. It is forecast that a possible 80 jobs may be involved in the project.

CHEMICALS AND MAN MADE FIBRES

The Index of Industrial Production for chemicals and man-made fibres increased from 99 in the last quarter of 1983 to 102 in the first quarter of 1984. This represented a faster rise than in the UK as a whole, where a 1% increase brought the index to 110. However, the chemicals industry in Scotland is less buoyant than in the UK as a whole. As stated in the last **Commentary**, it is not immediately obvious why this divergence in the two

indices exists although the nature of the chemical industry itself makes speculation on this count easy.



Perhaps more than any other industrial grouping the chemicals and man-made fibres 'industry' is characterised by its heterogeneity. In the 1981 Census of Production around 2,500 business units and 3,000 establishments were identified in the UK chemicals sector, the vast majority of which were small firms. However, the Chemical Industries Association (CIA) has estimated that approximately 68% of the industry's turnover is accounted for by 50 companies. No individual company indicates the diversity in the chemicals business better than ICI. Their product range stretches through items for the kitchen, inputs to the electronics industry, involvement in agriculture and health care to manufacturing explosives. A glance at the Minimum List headings under the SIC (Class 25) division for chemicals also displays the complexity of the industry. Eighteen activity headings are reported including organic chemicals, fertilisers, printing ink, perfumes, photographic materials and paint and varnish.

Comment on aggregate trends in the 'industry' are, therefore, unconvincing if not a little spurious. The Chemicals EDC of the National Economic Development Office has produced a number of useful documents on the state of the UK industry and its prospects for the future. Between 1973 and 1980 the industry as a whole grew in real terms by 4.4%. It continues to be an important contributor to Britain's balance of payments although its positive balance has declined in real terms from £1,777m in 1980 to £1,181m in 1983. However, the overall growth rate in the industry hides some worrying inter-sectoral movements (especially for the Scottish industry). The table shows some of the more extreme of these.

	1973-1980 (% growth in 1975 prices)
Inorganic chemicals	- 11.1
Pharmaceuticals	+ 28.8
Dyestuffs and Pigments	- 17.8
Soap and Detergents	+ 20.6

Trade in chemicals also shows remarkable movements over the 1973-80 period. For example, exports increased by 43% (although they fell in synthetic rubber, dyestuffs and pigments and fertilisers) while imports almost matched this with a 41% increase. At the same time consumption in the UK grew by only 0.04% and is cited by the Chemicals EDC as one of the principal problems facing the industry along with acute over-capacity in some sectors, high energy costs, exchange rate problems and reductions in fixed investment and R & D expenditure. The Committee's categorisation of the industry into three sectors is also worrying from a Scottish viewpoint. They saw as 'problem' areas, paints, soaps and detergents, dyestuffs and pigments and agrochemicals, and as growth areas, pharmaceuticals and specialised organic chemicals. The other chemical sub-groups were identified as static. Since the industry in Scotland seems to be concentrated to a large extent in the former sector - Grangemouth and the new Moss-morran plant being petrochemical installations, ICI operations being concentrated on dyestuffs and pigments, agrochemicals and explosives and Ciba-Geigy also heavily involved in the dyestuffs and pigments and paints business - then perhaps the relatively poor performance of the Scottish Index of Production becomes easier to understand.

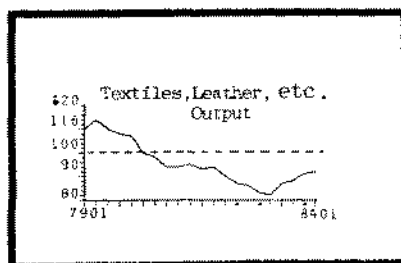
The latest Chemicals EDC report (published in October) suggests that 10,000 UK jobs in the petrochemicals industry are in danger because of the increased capacity about to come on stream in the Middle East and Canada. One factor which will counteract this threat in the case of Moss-morran (which was officially opened on 16 November) is the availability of low-cost natural gas liquids feedstock. Also, BP have drastically rationalised their petrochemical capacity in the last few years, concentrating their operations on Grangemouth. Indeed, the UK industry has reduced its capacity in line with recommendations from Western European producers but this willingness has not

been reciprocated by other West European countries, notably France. The NEDO report argues that the 15-20% over-capacity in the industry should now be reduced by those producer countries who have not so far borne their 'fair share' of rationalisation.

The closure was announced in September, of the Rechem International chemical waste disposal plant near Bonnybridge with the loss of 50 jobs. The owners announced closure amidst a growing public outcry about the effects of their waste disposal activities. Another announcement of job losses came in early November with the decision to shed 570 jobs at the Royal Ordnance Factory in Bishopton. The losses were not unexpected but were more severe than the 3-400 originally forecast. The Ministry of Defence claimed that the redundancy programme, which will involve a total of 1,800 workers nationally was necessary because of the expiry of a contract to manufacture Howitzer shells.

One firm in expansionary mood is Cruachem, one of the leaders in Scotland's fledgling bio-technology industry. The firm which has developed a 'gene-machine' for producing synthetic DNA chains, was started by five academics but attracted additional finance from the SDA and financiers, Ivory & Sime. These outside backers have forced Cruachem to increase its marketing function and general efficiency at the same time as it searches for new larger premises.

TEXTILES, LEATHER, CLOTHING AND FOOTWEAR



Production of textiles, leather, clothing and footwear continued to rise in the first quarter of 1984, but the rate of

growth slowed considerably compared with the previous quarter. This is consistent with the predicted slackening in growth reported in the last issue. Both the CBI survey and the Chambers of Commerce Scottish Business Survey confirm that most Scottish businesses in this sector expect a flattening out of demand over the coming months.

The performance of Scottish companies is noticeably better than that of companies in the rest of the UK where the seasonally adjusted Index of Production fell back by four points during the first quarter. This coincided with a record UK balance of trade deficit of £1,101m for textiles and clothing in the first half of 1984. Imports in the second quarter of 1984 were up 8% on the previous year, whilst exports had only grown by 2%. The countries of the EEC, unfettered by MFA quotas, were mainly responsible for the growing deficit, while low cost countries showed little change in their share of sales to the UK.

Scotland is much better insulated than the rest of the UK against import penetration for three inter-related reasons. First, wool textiles are relatively more important in the Scottish sector and this is the only textile which, throughout the UK, is managing to hold off competition from imports and continues to have a UK trade surplus. Secondly, a large proportion of Scotland's producers in both textiles and knitwear specialise in the high quality end of the market, which is less vulnerable to import competition. Finally, the Scottish sector is far more export-orientated. The National Association of Scottish Woollen Manufacturers reported that well over three quarters of their members' output was exported in 1983, and at least 60% of production by members of the Hawick Knitwear Manufacturers Association (which covers the great majority of knitwear output from Scotland) went as exports.

Undoubtedly the reflation of the US economy and the strength of the dollar against the pound has been responsible for a large portion of the surge in export earnings. Indeed, Bill Coats, Chairman of Coats Patons, announced that the company's profits benefited by £400,000 for every cent that the dollar gains against

sterling. But the US is not the only source of extra demand. Scottish knitwear, textiles, and yarn producers are also increasing their sales to Europe and this has been helped by the recent slide of the pound against most European currencies.

It is not only Scotland which is enjoying a rush of demand from the US. Textiles imports to the US rose by 25% last year, fuelled by both reflation of the US economy and the strong dollar. The US has responded by announcing new rules aimed at restricting textile and clothing imports. Imported items must now detail all countries where any part of the production process has taken place. This will include reporting the origin of yarn and cloth used in the manufacturing process. The purpose of the new rules is to prevent manufacturers avoiding MFA quota limits in their own country by sending semi-finished items abroad for finishing before re-exporting them. The new US rules, which took effect from 7 September, were condemned by both EEC and Third World countries at a recent GATT meeting.

The Hawick Knitwear Manufacturers' Association are confident that the new rules will not affect their members, as, in almost all cases, the raw materials and all parts of the production process are UK-based (in fact entirely Scottish). Similarly, Scottish wool textile manufacturers should have little cause for concern. Some made-up clothing manufacturers may however face more problems.

Recent statements from Scottish companies continue to reflect the boom in the wool textile and quality knitwear sectors. Following the jump in profits reported for Dawson International in the last issue of the *Commentary*, Coats Paton plc reported a 27% rise in half year profits to £43.2 million. These days only a tiny proportion of Coats Paton's production is based in Scotland with, indeed, 65% of their employees being outside the UK. Recent activities have continued this move away from the UK. Coats Paton have acquired the leading German manufacturer of handknitting yarns, Schachenmayr Mann and Cie, and hope to use this opening to expand their sales in both Germany and the rest of Europe. In addition they have

shed their UK textile subsidiary, John Heathcoat and Company in a management buy-out.

Scottish, English and European Textiles plc, Scotland's largest manufacturer of tartan and Harris Tweed, reported sales up by 37% for the year ended 30 April 1984, and this fed through into a 65% rise in profits. The company exported a record 74% of their turnover this year North America was responsible for a large chunk of the rise in export sales, although the EEC also absorbed a significant rise in orders. Sales within the UK were also up.

Regular figures on employment in the Scottish Textile and Clothing sectors are no longer published, but there seems little doubt that employment in knitwear and textiles is rising. The GMBU, the main negotiators for Scottish knitwear and textile workers, report a consistent rise in employment among their members in both knitwear and wool textiles. The same picture emerges from both the most recent CBI Survey and the Chambers of Commerce Scottish Business Survey, with almost no firms reporting lay-offs in the last three months. Like sales, the rise in employment appears to be flattening out now, with most of the survey firms expecting employment to remain static or to fall over the next three months.

Both the GMBU and the Scottish Business Survey figures indicate that the majority of new jobs are going to women. The rise in employment has not apparently kept pace with the boom in sales, and it seems likely that much of the extra production has been absorbed in additional overtime and the use of contract- and out-workers.

The recent boom in the Scottish textile sector has led, not unexpectedly, to demands from workers for a share in the rewards. Textile and clothing workers are generally one of the worst paid groups in manufacturing. This, in part, reflects the very high proportion of female employment (60% females for the whole of the UK). The Scottish industry experienced an exceptional degree of industrial conflict during the last quarter, with industrial disputes breaking out in both the knitwear and wool textile sectors.

The first dispute occurred in September between the Hawick Knitwear Manufacturers Association (representing the majority of Scottish knitwear manufacturers) and the GMBU which operates a closed shop in this section of the industry. 4,000 employees banned overtime and outwork. This escalated into a total stoppage at Lyle & Scott when the company attempted to defy the ban on outwork. Agreement was finally reached on an offer worth 10% over a year.

Soon afterwards, the Scottish Woollen Industry Council, representing most of the wool textile manufacturers, found itself in dispute. Undoubtedly workers were responding to both the boom in their industry and to the unusual example of industrial action in the Borders.

The performance of wool textile manufacturers has not been as consistently good as among the Hawick knitwear manufacturers. Consequently, when the Scottish Woollen Industry Council offered a 5% pay rise, workers in some firms were more willing to take action than in others. Faced with localised industrial action, individual firms broke away to settle independently. The first to break ranks and settle was T M Hunter at Brora, which found itself faced with an all-out strike. Six other companies have since settled for increases ranging up to 8.5%.

It would be misleading to paint an entirely rosy picture for the whole of the Scottish clothing and textile sector. Those parts of the industry with a particular Scottish dimension, noticeably high quality wool knitwear and textiles, are doing well, but large parts of the industry in made-up clothing and carpets are struggling, along with the rest of the UK industry.

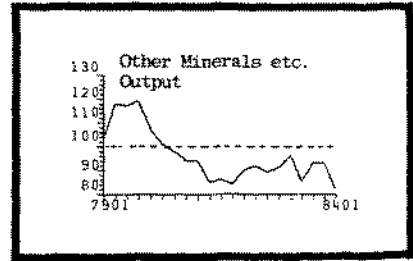
The Scottish carpet industry has been suffering a rapid decline for several years. The last Scottish company of any size operating in this sector, Stoddard Holdings plc, was forced into a full scale reorganisation after making heavy losses. Two years ago the SDA and Bank of Scotland were forced to come in and provide financial support for the company. After three years of heavy losses, Stoddard recently reported a small profit

for the year ended 31 March 1984. This turn-around does not reflect any recovery in the UK carpet industry. In fact, UK carpet production declined in the first half of 1984, and Stoddard's sales were only 2% up on the previous year and, therefore, presumably down in volume terms.

Stoddard's recovery seems to be due entirely to a full-scale rationalisation of their operations. Several foreign subsidiaries were sold off, and over the last year the labour force was reduced by 20%. The recent improved results enabled the SDA and the Bank of Scotland to reduce their holdings in Stoddards, but at the October AGM the chairman admitted that current sales are lower than expected, in line with experience in the rest of the UK.

The recent recovery of the Scottish textile sector is a fragile phenomenon, heavily dependent on the state of sterling, the dollar and the US economy. One way to cement and build on recent successes among knitwear manufacturers would be to create a Scottish Knitwear Marketing Organisation along similar lines as the Scottish Woollen Publicity Council. The Hawick Knitwear Manufacturers Association, among others, is presently engaged in lobbying central government and the SDA for financial support for such a project.

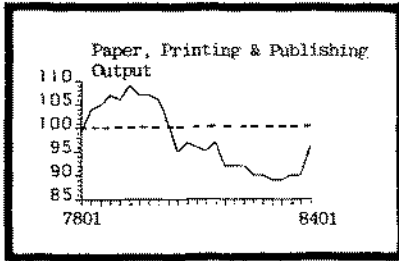
It was mentioned in the last **Commentary** that the MFA is coming up for renewal in 1986. Activities at the September meeting of the GATT Textile Committee have made the chances of renewal less promising. A report from GATT's Economic Secretariat claims that textiles and clothing industries in western countries should no longer be protected from low-cost suppliers. Even if the MFA is not renewed the Scottish woollen and knitwear industry will remain protected until 1988 by an agreement restricting imports of wool and cashmere products into the EEC. At the moment the Scottish sector's main competition comes from high quality European products, so that the end of the MFA should not necessarily spell the end of the Scottish industry. In the long-term, the success of the Scottish industry will depend very much on whether low cost countries attempt to move up into the high quality end of the market.



Scottish production in this diverse sector experienced a setback in the first quarter of 1984 when, according to the latest Index of Production, output dropped by 11% from the previous quarter. This was the largest fall of any Scottish manufacturing sector in the period. While production in the UK also declined, the fall of 5% was less severe. Given the range of industries subsumed in this sector, it is difficult to identify the reasons for the recorded slump. A contributory factor may have been falling production in the construction and drinks industries, in both Scotland and the UK, during the first quarter. These industries are significant markets for general building materials and glass products respectively. The indication from the UK Index of Production is that output of Mineral Products and Other Minerals should have made some recovery in the second quarter with a revival in their intermediate markets. However, the Builders Merchants Federation suggests that any improvement in building materials' output, the largest industry within the sector, may still be precarious, as sales figures for the summer months showed a slight decline in orders.

PAPER, PRINTING AND PUBLISHING

Some evidence of revival in the Scottish Paper, Printing and Publishing sector comes from the latest Index of Industrial Production figures. In the first quarter of 1984, the index rose by 7% to 96, the largest increase in any quarter since the onset of the recession. This parallels a broadly similar but less pronounced trend in the UK as a whole.



The Scottish Business Survey results for the quarter ending September 1984 indicate that, although a net balance of 13% of the respondents were less happy about the general business situation than they were three months previously, more than half were optimistic about the expected trends in total volume of new orders and sales over the next quarter.

Fears that the government plans to introduce VAT on books, newspapers and periodicals in the near future have been allayed for the time being only. In reply to Parliamentary questions on 26 October, the government indicated that it had no plans at present to impose VAT on the publishing industry. However, because of the government's commitment to shifting the general burden of taxation from taxes on earnings to taxes on spending, a move to levy VAT on newspapers and books, which are presently zero rated, cannot be ruled out in the future. A spokesman for the Newspaper Society, currently campaigning against the imposition of VAT on the industry, has argued that it would lead to the closure of many daily and weekly titles and to widespread job losses, particularly amongst the regional press. At the last Census of Employment count, the printing and publishing industries in Scotland employed approximately 24,000 people, 7,000 of whom were employed in newspaper printing and publishing.

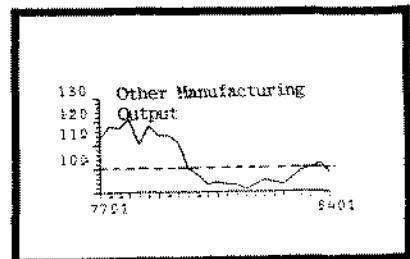
The successful integration of acquisitions has helped boost the performances in the first half of 1984 of both William Collins, the Glasgow-based publishing group, and John Menzies, the Edinburgh-based newsagent and stationers company. Collins, now fully reaping the benefits from its acquisition of the Granada publishing group, lifted pre-tax profits

by 105% to £4.1m on sales that rose from £43m to £53.4m. For John Menzies, the acquisitions of Lonsdale Universal and the Ryman office equipment group have been regarded by the company as major successes. The company increased pre-tax profits by 43% on a turnover which rose by 12% to £233m.

Also on the acquisition trail, the Johnston Newspaper group, whose titles include the Falkirk Herald, Kirkintilloch Herald, and Cumbernauld News, has entered into negotiations to take over the Bellshill Speaker and the Motherwell Times. The group whose head office is in Edinburgh already owns 40 newspapers, with 22 titles in Scotland and 18 in England and have just finished negotiations with Eddie Shah to purchase free sheets in Bury, Lancashire.

Elsewhere in the newspaper industry, Scotland's oldest evening newspaper was put up for sale in October. The Greenock Telegraph, owned by the local Orr family since it was founded in 1857, has a circulation of over 25,000 throughout the Lower Clyde area.

OTHER MANUFACTURING



Following successive increases between the fourth quarter of 1982 and the fourth quarter of 1983, the seasonally-adjusted Index of Production for Other Manufacturing dipped in the first quarter of 1984. It must be noted, however, that this sector comprises a heterogeneous collection of industries. Movements from one quarter to the next do not necessarily presage a trend, and indeed the Index itself is subject to subsequent revision. For example, the most recent release from

the Scottish Office reports the Index of Production for Other Manufacturing for the four quarters of 1983 as 95,98,99 and 100. This involves a revision of 2% in the output estimate for the final quarter of 1983 and a revision of more than 1% for the year, compared with the figures issued in August. These revisions are well in excess of the reported quarterly and annual changes in the Index of Production for all manufacturing, so that revisions of this order in a number of industries can affect the direction as well as the magnitude of change in total industrial output.

Whatever the problems with values of the Index for particular quarters, there was a marked increase in output, of the order of 6%, between 1982 and 1983, and indications from other sources, including survey data and company reports, suggest that growth in output has been maintained in the past year.

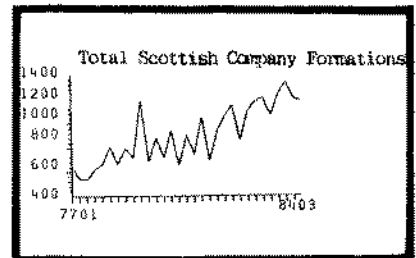
Recently there have recently been a number of interesting developments affecting the timber industry, which is the most important sub-sector within Other Manufacturing. The Scottish Forest Products Development Group (SFPDG), representing the SDA, the HIDE, the Forestry Commission, Timber Growers Scotland and the Industry Department for Scotland is seeking to promote investment in a new pulp mill in the West Highlands. Despite the closure four years ago of Wiggins Teape's mill at Corpach, SFPDG argue that a new mill based on the latest technology (the chemi-thermomechanical pulp or CTMP), with access to 300,000 cubic metres per annum of West Highland softwood (mainly spruce), and even larger volumes in the 1990's, could be commercially viable. Moreover, the present sterling exchange rate will increase the appeal to potential North American or Scandinavian investors. Possible snags include the relatively high cost of energy in Britain (pulp mills are highly energy-intensive) and uncertainties over the levels of grant-aid which may be available following the Government's review of regional aid policy. The concept however is a reflection of the growing importance of the forestry industry in Scotland and the attention being given to the possibilities for downstream development of industrial projects based on this natural resource.

In another development, the Borders-based firm of A & R Brownlie have announced that a new timber mill will be constructed near Hawick, again with the intention of utilising the growing volume of timber resources in the Borders region.

The growth of the forestry industry is not without its critics, however. Substantial plantation investment by the Perth-based company Fountain Forestry Limited in the northern counties of Caithness and Sutherland, has provoked unease amongst crofters and conservationists, the former fearing a repetition of the Clearances and the latter a drastic effect on the environment. Given the fairly modest area of the country under plantation (around 14%) and the statutory safeguards designed to control afforestation, these fears seem unwarranted, though there may be local problems. Through a jointly-owned subsidiary, Fountain Forestry have also been engaged in the development of a genetically-improved Sitka spruce stock which, it is claimed will lead to higher quality, higher value timber and a 10% gain in overall timber production per unit planted.

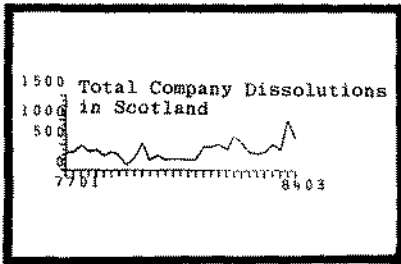
COMPANY FORMATIONS AND DISSOLUTIONS

The number of company formations in Scotland during the third quarter at 1185 was little changed from that of the second quarter. The number of dissolutions fell back from the unprecedented second quarter figure of 1050 to 691 but still remained well above the quarterly average for the last two years.



As noted frequently in the past, the value of these series as short-term indicators is highly dubious with the incorporation

series being trend-dominated and the dissolution series apparently moving procyclically.



The Department of Trade and Industry compile related statistics of firms registering and de-registering for VAT. A regional analysis of these data for the period 1980-83 has recently been published*. Like the incorporation and dissolution series, the DTI data also show a rising number of new start-ups and a relatively constant number of shut-downs.

Approximately 7.5% of all VAT registered business are located in Scotland. The data suggest that the start-up rate in Scotland was amongst the lowest for the UK regions during this time period, with only Northern Ireland and Wales registering lower rates. Interestingly, the rate of de-registration was also amongst the lowest of the regional rates in the UK. At the sectoral level and taking the three years together, there was an excess of starts over stops in all Scottish sectors except Transport and Retailing. Most other regions also recorded net de-registrations in retailing, but only Scotland, Northern Ireland and Wales recorded such a pattern in Transport. Like the UK as a whole, just over 25% of the net increase in registrations in Scotland was accounted for by firms in construction. The excess of starts over stops in Scotland can also be disaggregated by size of firm. In Scotland, as in the UK as a whole, there was a net loss of firms in the smallest and largest turnover categories, but an increase in all others.

*British Business, 2 November 1984, pp350-353.

The Service Sector

THE FINANCIAL SECTOR

An up-to-date insight on short-term business trends amongst Scottish financial institutions is provided for the first time by the Scottish Business Survey undertaken in early October.

Scottish financial institutions report strong growth in the level of both personal and corporate advances over the last three months. Corporate advances are expected to grow even more rapidly during the current quarter. The category of corporate advances which is most buoyant is working capital, followed by buildings. This overall picture tends to be replicated at the regional level.

The most rapid growth in corporate advances over the past three months has been from firms in services other than distribution, followed by firms in manufacturing. This pattern is expected to continue into the current quarter.

The growth in advances to construction firms is expected to moderate in coming months reflecting the forecast slowdown in activity in that sector. These conclusions again fit with the pattern emerging at the sectoral level.

Not surprisingly given the diagnosis of a general consumer boom in retailing, the volume of personal advances rose markedly in the last quarter, with this trend expected to persist in the months to Christmas. Again, all regions conform to the overall pattern differing only in the proportions of institutions reporting increases in personal advances.

On a longer time horizon than that of the Scottish Business Survey, a number of signs point to forthcoming major changes in the Scottish banking sector. An example of the direction of change is provided by the Trustee Savings Bank

which has made a determined effort to break out of the 9-3.30 branch hours that have been a feature of the banking scene for so long. Its new Edinburgh branch is open for business not only during traditional bank hours but also on Saturday and Sunday. The extended hours represent an increased awareness of consumer needs and a direct challenge to the other banks that the cosy collusion over bank hours cannot last indefinitely. In addition, it is apparent that increased competition for banking business will come from the building societies as a result of the legislative changes, foreshadowed by the recent Green Paper, and that the extended opening hours of the building societies represent a powerful threat to current practice and a strong impetus to change.

The TSB provides further examples of significant changes. The recent extension of its activities into money market dealing is particularly notable since its operations are based in Scotland. In the past operations of this kind would have been based in London in order to be close to the other major institutions involved in the market. The development of trading in Scotland is a reflection of the telecommunications revolution that has made the necessity of geographical proximity redundant. It has demonstrated that institutions can function in any part of the UK and provides evidence that proximity to the institution's customer base may be more important than closeness to existing money markets. It is also of interest that the TSB is heavily involved in mortgage finance, illustrating that the retail banks and building societies are financial institutions competing in the same markets and pointing the way to the eventual integration of the retail banks with the building societies.

Changes in other banks have been in a different direction although the causes have in many instances been similar. The Bank of Scotland has been competing for deposits with schemes offering high rates of interest on current accounts. By

marketing the schemes in areas where the bank does not have an extensive branch network to support, it has been able to offer higher rates without fear of affecting its traditional business. It is also relieved of the burden of supporting a branch network in these areas, a requirement that may be expensive, at least in the short term. The bank has also shown itself adept at utilising the branch network of other institutions and retailers. Link-ups with two building societies have enabled it to exploit their branch networks. Its links with the Alliance enable customers to enjoy the benefits of banking facilities in addition to those offered by the building societies. The joint operation with the Nottingham Building Society in providing Homelink illustrates the impact of the telecommunications revolution on financial services. Using Prestel the service allows, amongst other facilities, electronic money transfer between the bank and the building society. The other retail partners in the scheme, the Nottingham Building Society and Thomas Cook, provide subscribers with an extended branch network for making payments. Recent extensions of the Homelink scheme to include the stockbrokers Vickers da Costa (who plan to merge with Scrimgeour Kemp-Gee and become part of a group controlled by Citibank) also allows electronic payments (and receipts) for shares.

Another aspect of the progress in communications has seen the Clydesdale taking the initiative. Experiments with point of sale debiting, involving a number of garages in the Aberdeen area, have been very successful and widespread expansion can only be a matter of time. The Committee of London Clearing Banks is known to have been considering proposals from four groups of manufacturers laying down standards and suggesting methods of implementing cashless shopping. The advantage to the banks over the credit card is that it divorces the payment mechanism for goods from the individual's credit arrangements. It allows the banks to restrict the free credit that they are forced to give, at the moment, to credit card holders who pay promptly. The advantage to the retailer is that delays in settlement are eliminated. Payments are instantly credited to their accounts.

Taken together, the changes suggest that

the face of Scottish banking in ten years is likely to have altered dramatically. The days of the branch bank as a focus of depositing and withdrawing activities are clearly numbered. Branch banks will be necessary to offer advice to and help individuals and small companies find solutions to their financial problems. But unless the banks greatly expand the range of services they offer, and, more importantly, actively promote these services, it is difficult to see them remaining at their present size and number. The implications for staffing are clear. Fewer counter staff will be necessary. The requirement will be for staff who can advise clients and market financial services.

One way around the problems induced by these changes is to utilise the existing branch network of the banks to aggressively sell other financial services. Insurance and assurance are obvious examples together with unit trusts, bonds, shares and other securities. The rapid changes in the financial sector as new institutions emerge with an extended range of activities and expertise provides both an opportunity and a warning. The agreed bid between stockbrokers Wood MacKenzie and the Hill Samuel group is an example of the type of link up being made. The move by the National Westminster Bank to acquire brokers Fielding, Newsom Smith is another and suggests that the Scottish banks should be considering carefully the future directions of their business and examining the possibility of acquiring or building up activities which will interlock with their existing business and particularly their branch network and staff. Warnings about the possibility of expensive mistakes as a result of such acquisitions have come thick and fast. Considerable sections of the Edinburgh financial community seem very wary of the changes or at least the pace of change. It remains true, however, that alterations in the regulatory framework are making changes inevitable. These changes are coming at the same time as, and in part in response to, technological progress which is making information more readily available, reducing the burden of making and monitoring transactions and making access to financial facilities easier, more widespread and much less dependent on geographical location. Some unsuccessful mergers and reorganisations are inevitable. Some money will be lost, but it is certain that many of the remaining existing specialised

institutions will face greatly increased competition. If they grasp the opportunities now afforded to them, the traditional clearing banks could be one potential source of this competition.

The international nature of many of the new institutions that are being formed should not be overlooked. This provides a new source of competition, often with substantial resources and a great deal of expertise. The opening of an Aberdeen office, in an extension of its Scottish operations, by Citibank of New York provides an interesting insight into the skills that other institutions can offer and their impact on the market. Very substantial sales of currency hedging options are just one of the areas in which the bank has made a significant impact in Scotland. Its UK operations are already 10% of its US parents' assets. It is certain that Citibank will not be the only foreign bank to become a long term resident of the UK and a sizeable force in the market. The thrust of their business at the moment is in the corporate sector but it would be foolhardy to ignore their potential presence in the retail banking sector. As communications systems develop, transferring money electronically to Citibank from a UK institution may become routine for many households.

The branch networks of both the building societies and the banks have been important in acquiring and retaining market share but may now increasingly become an expensive millstone unless the institutions adapt their functions. Actively encouraging contact with customers by providing well-founded advice on the whole range of financial questions and using this contact to promote sales of other financial products must be a major goal of the banks and building societies.

DISTRIBUTIVE TRADES

Results of the new Scottish Business Survey (SBS) indicate that a net 19% of Scottish wholesale respondents enjoyed an upward trend in sales in the quarter to end-September. Furthermore, 46% of wholesalers expected further increases in sales in the final quarter of 1984, while only 13% expected declines. However, perhaps because of continuing concern over

the effects of the miners' strike, only a net 4% of wholesalers were more optimistic in September about general trading conditions than they had been in May. This somewhat cautious attitude is also evident in investment intentions with only a net 3% of respondents indicating upward revisions to investment intentions in premises between May and September.

The overall upward trend in wholesaler sales was not reflected in employment: a net 13% of respondents had reduced employment between May and September and a balance of 8% expected further job reductions before the end of the year.

Wholesaler markets typically cover a wide geographical area, and hence it is not to be expected that wholesalers located in mining areas will necessarily be especially adversely affected by the miners' strike. It is more probable that any detrimental contribution to wholesale performance would arise through indirect, macroeconomic effects of the strike, particularly any upward influence on interest rates. In this respect, it is interesting to note that 24% of SBS wholesale respondents felt that sales growth to the end of 1984 might be limited by problems with credit facilities.

Overall, the situation of Scottish wholesalers appears to be quite similar to that in the UK as a whole. The September CBI/FT survey also shows positive balances for UK wholesalers experiencing sales growth in the third quarter and expecting further improvement in the fourth quarter.

The SBS returns for retail trade indicate that Scottish retailers enjoyed something of a boom in the third quarter, with a net 64% reporting increases in sales volume. Again, this is similar to the British experience as a whole as indicated by the CBI/FT survey, in which 59% of retailers had increased sales in August 1984 compared with August 1983. Furthermore, the Index of Retail Sales reached an all-time record of 114.3 (1980=100) in September. Not unexpectedly in view of the approaching Christmas shopping season, a net 78% of Scottish retailers expected sales to continue to grow in the fourth quarter of 1984.

This buoyant sales performance is reflected in investment and, unlike wholesaling, employment intentions. A net 30% of Scottish retail respondents reported that they had revised their intentions to invest in premises upwards between May and September. Related to this is the fact that 16% of respondents suggested that lack of floor space was a possible limiting factor to sales growth. 22% of retailers indicated that total employment had increased in the third quarter, while only 5% reported declines. Furthermore, a net 40% expected further employment growth in the fourth quarter. However, virtually all the actual and expected growth was in part-time employment. Indeed a net 12% of retailers predicted that full-time employment would fall by the end of the year.

Recent newspaper reports suggest that retailers in areas affected by the miners' strike have suffered relative to others because of the reduction in local household incomes and, hence, in consumer demand. Among the three areas which are separately identifiable in the SBS, the one in which retailers would be expected, on a priori grounds, to be most affected by the miners' strike is Edinburgh. Responses for Edinburgh are compared therefore with those for Glasgow and Aberdeen in the table below. The figures for Glasgow/Aberdeen are arrived at by weighting responses for the two Chambers, the weights reflecting the number of respondents in each of the Chambers.

**GEOGRAPHICAL RESPONSES TO SEPT. 1984
SBS SURVEY**

Item	Balance of Responses in:	
	Edinburgh	Glasgow/Aberdeen
	%	%
Overall confidence UP	+ 4	+25
Actual sales UP	+75	+57
Expected sales UP	+65	+86
Actual employment UP	- 9	+29
Expected employment UP	+18	+46
Investment Intentions UP	+ 4	+39

If anything, Edinburgh retailers enjoyed a more buoyant summer on balance than those in Glasgow or Aberdeen. However, as a group the Edinburgh traders were consistently less confident about prospects for the fourth quarter.

The SBS does not cover motor trades separately, but the September CBI/FT survey indicated that in Britain as whole, a balance of 7% of motor distributors felt that their business situation would worsen in the fourth quarter.

CENTRAL AND LOCAL GOVERNMENT

During the past year a total of 204 new firms located in the five Scottish New Towns - 34 in Cumbernauld, 49 in East Kilbride, 28 in Glenrothes, 29 in Irvine and 64 in Livingston. It is against this background that the Secretary of State's recent announcement that none of the New Town Corporations will begin its "wind-up" before April 1990 should be considered. The Scottish Office have determined that the "winding-up" stage will begin for each Corporation when the actual population of its town reaches a particular percentage of its designated population. This announcement was generally considered in the media as a victory, or at very worst a stay of execution, for the Corporations. A quite different interpretation is, however, possible.

The "trigger" populations as a percentage of the designated population differ markedly among the towns, ranging from 66% in the case of Irvine to 90% in the case of East Kilbride. If the case of Irvine is looked at in more detail it is immediately apparent that the Scottish Office has implicitly abandoned the original designated population of 95,000 as a realistic target. Prior to designation in 1966, Irvine had a resident population of 29,000. The planned expansion therefore amounted to 66,000 persons. In effect the Scottish Office decision means that Irvine New Town Corporation will begin winding-up when the population increase has reached only half that intended at designation. It is difficult to construe this as a "victory" for that particular New Town.

Despite the verbal support for the New Towns offered by the Secretary of State, the publication of revised population targets, and for the first time mention of a calendar date after which the New Towns could be wound up, is certainly the clearest indication so far that the Development Corporations are not immortal. The most plausible interpretation of the Scottish Office announcement is that much

of the regional authorities' criticisms of the overly optimistic population forecasts contained within the New Town profiles has been accepted. Accordingly, while it would be premature, both politically and economically, to wind up the New Town Corporations immediately, present conditions no longer require the large scale housing provision initially envisaged in these centres. Thus, the physical expansion of the New Towns has been scaled down and the first winding-up announcement may be expected in 1989 - with Irvine the prime candidate.

The termination of support for the New Towns can be examined from a number of perspectives. Firstly, the New Towns are no longer "new". East Kilbride, for example, now demonstrates characteristics common to towns of similar size and economic structure throughout Scotland: rising unemployment, skill imbalance, low levels of indigenous innovation and so forth. Furthermore, the dominance of foreign-owned companies in the town makes it markedly vulnerable to multi-national disinvestment. Irvine, in contrast, has never realised its economic potential as a "growth centre", suffering unemployment rates consistently above the regional average. It is also becoming increasingly difficult for the Secretary of State to justify resource discrimination in favour of the New Towns when their population growth rates have fallen to a level similar to small town and suburban areas around the major cities.

There is also a conflict between government expenditure on the New Towns and the policies of urban renewal, particularly through the spatial investments of the SDA. It is becoming awkward to reconcile continued investment in the New Towns when, albeit in another part of New St. Andrew's House, the Secretary of State has approved a variety of policies to rebuild inner-city areas - GEAR, Leith, Motherwell, Blackness in Dundee - and reduce if not actually halt the drift to greenfield sites.

The statement on the future of the New Towns can also be interpreted in the light of the impending restructuring of UK regional policy. It has been suggested that the New Towns will be treated less favourably under the new regime, perhaps through the removal of their present assisted area status. Taken with the

current emphasis on the inner-city, the Scottish Office announcement can be viewed as part of an overall re-appraisal of regional economic/urban policy.

In defence of the New Towns, the Development Corporations will argue from two positions. In terms of population growth and housing, their case rests on indigenous demand for "second-generation" housing. They have always argued that they need "6(1)" consent to continue development for local need, originally in the form of Corporation housing, and now through private sector provision. In addition, they firmly believe that they need to have an adequate supply of housing on offer if they are to continue to attract inward investment.

Second, they present their record on the attraction of industry, especially high technology firms, as ample evidence that they have played and will continue to play a crucial role in the economic development of Scotland. This argument may still be valid in the case of Livingston and Glenrothes, but it is not clear that the same can be said of Cumbernauld, East Kilbride and Irvine!

Looking at the announcement from a political perspective raises a policy contradiction. On the one hand, 'winding-up' the New Towns has political currency in terms of reducing public expenditure and - perhaps less obviously - can be measured against pressures to reduce the number of QUANGO's particularly in the field of regional development. The 'benefits' need however to be balanced against the potential political costs of delivering the assets of the New Towns into the welcoming arms of Labour controlled Regional Councils and the younger, more committed members in District Council.

It is ironic that because of the introduction of the 'trigger' concept the Labour Councils in Strathclyde and elsewhere may now become the strongest supporters of further expansion of the New Towns, hastening the time when the 'magic' percentage is reached and the 'winding-up' process begins!

TOURISM

It was stated in the last **Commentary** that an analysis of the International Passenger Survey (IPS) results for 1983 and in particular those figures relating to Scotland would be undertaken now. Unfortunately, the IPS which is collated by the Office of Population Censuses and Surveys was not released in time for inclusion in this **Commentary**. The data are normally available from the end of August.

There have been a number of significant developments in recent months affecting Scotland's tourism industry. Britain's tourism industry generally has had a particularly successful summer season. Overseas visitors, especially from the United States, took advantage of the relative weakness of sterling and came to the UK in numbers reminiscent of the peak years of the 1970s, while domestic holidaymakers made the most of the driest summer since 1976. Although it is too early yet to cite official statistics for the industry, government spokesmen have been eulogising 1984 as one of the most successful years in memory. A detailed analysis of Scottish hotel occupancies will be undertaken in the next **Commentary**.

Perhaps reflecting this resurgence in Scotland's tourism industry, the Secretary of State has invited Mr Alan Devereux to remain as Chairman of the Scottish Tourist Board for another term of five years. Appointments of Tourist Board Chairmen are usually for terms of 4 years. This re-appointment will enable Mr Devereux to oversee personally whether his views, outlined in his foreword to the Scottish Tourist Board's 1983-84 Annual Report, that Scottish tourism has the potential to create a further 54,000 employment opportunities and to generate a £603m increase in income by 1990 are fulfilled.

Mr Devereux was amongst the many who welcomed the announcement by the Environment Minister of the choice of Glasgow as the venue for the 1988 National Garden Festival. The site will be the redundant Princes Dock and this represents a considerable coup for the SDA who submitted the application, negotiated the leasing deal with Laings the site owners,

and put together the funding package.

Finally, it may be recalled that in the May **Commentary** it was reported that the Scottish hotel company Skean Dhu was looking for a buyer. The company has been taken over by Mount Charlotte Investments for the sum of £27.7m. The five hotels will trade under the logo of the Hospitality Inns which, according to Mount Charlotte's Managing Director, Robert Peel, seek to offer four star standards at three star prices. With the three hotels already owned in Scotland by this Leeds-based group, Mount Charlotte is now well established as a major hotel operation in this country.

TRANSPORT AND COMMUNICATIONS

The Secretary of State for Transport is currently considering the evidence submitted to the Review of Lowland Airports Policy. While the bulk of known opinion favours either development of Glasgow or construction of a new airport in the Central Belt, there is widespread speculation that Mr Ridley will opt for the status quo and retain Prestwick airport as Scotland's intercontinental gateway. Opposition to the status quo and scepticism about the case for Prestwick has been expressed in past issues of the **Commentary**. In the recent quarter a new development has taken place which merits assessment.

A new company, Highland Express Airways, has emerged from the struggling Virgin Atlantic operation and has brought forward plans to promote a hub at Prestwick with an initial route network from Birmingham, London and Maastricht in Holland feeding services to Newark and Toronto. Medium-term plans involve developing feeder services from Scandinavia and France and reviving the former Laker routes to Miami and Los Angeles. Randolph Fields, the Chairman of the new airline, has already raised the bulk of the required capital and has undertaken a £35m investment in three Tristar aircraft. Highland Express projects a total of 300-400 new jobs in addition to safeguarding the present workforce at Prestwick. The Field strategy is based on cheap fares to tap the 'youth market' and on a clear Scottish

image designed to expand the potentially large 'kith and kin' market which exists on both sides of the Atlantic. The Civil Aviation Authority (CAA) will hear the route applications in January and Highland Express plan to inaugurate their services in the Spring.

This strategy seeks to remedy the most telling handicap faced by Prestwick. At present the Ayrshire airport is an airtransport cul-de-sac with only one feeder service to Aberdeen and Belfast. Until now, any attempt to promote 'spokes' for the Prestwick 'hub' has been regarded as uneconomic. It should be noted that the Highland Express scheme is not a new one and was canvassed in June when Field was with Virgin Atlantic. It could be argued that the Prestwick plan was one of the major causes of the split between Field and his Virgin Atlantic co-founder Richard Branson who regarded the scheme as ambitious and risky. The 'youth market' is well catered for by direct transatlantic services and it is not clear how indirect flights via Prestwick will fare against direct flights from other places.

The success of Highland Express is likely to hinge on its ability to exploit and expand the demand for direct flights to and from Scotland. This market is currently served by Air Canada and North West Orient at Prestwick by charters and indirectly through the London airports. Clearly any new services will face stiff competition from existing carriers whose marketing operations are well established. In addition, the possibility of predatory pricing via cross-subsidisation is ever present and the story of Laker should not be forgotten. Virgin Atlantic has announced recently that it is actively reviewing its present operations because of fare cuts by British Airways. BA is to be privatised in May 1985 and may take a very robust attitude towards the cheap fare carriers in order to protect its Heathrow business and its renewed US services from Manchester. Highland Express is likely to have a difficult first two years.

The key question is whether the new airline has the resources and marketing flair to overcome the handicaps of Prestwick and an operating environment which is extremely competitive. However,

the pro-Prestwick lobby has seized upon these proposals as a turning point in the fortunes of the airport and is pressing the case with Nicholas Ridley. The Field strategy contains no certain salvation for the Ayrshire airport. The Highland Express operation would have significantly better prospects if based on an upgraded Abbotsinch where a large network provides numerous interlining opportunities. However, British Midland Airways, whose plans to fly transatlantic from Glasgow prompted the review, have objected to the Highland Express route application. In terms of market potential, the BMA and Highland Express proposals are mutually exclusive. Ironically, the following scenario is not too unlikely. Mr Ridley opts to continue with Prestwick and Highland Express starts its new services. Private capital is injected into UK airports and Prestwick is again under pressure. In the medium term Highland Express could find itself beating Michael Bishop's BMA to the opportunities at Glasgow. Clearly the potentially lucrative Scottish image is capable of being projected from any suitable Scottish base.

The long term interests of the Scottish economy should govern the outcome of the Ridley Review. In this respect the Highland Express proposals are marginal if linked exclusively with Prestwick. Mr Fields proposals represent a high risk strategy for the Scottish economy. The arguments in favour of Prestwick are based on social costs, existing investment and a facile belief that the market will view the Ayrshire Airport more favourably in future, more buoyant times. Nicholas Ridley can only choose the extent and timing of bearing the social costs. The development of Manchester, the prospect of greater air transport movements at the London airports and the imminence of privatisation will singly or jointly cause Prestwick to lose its scheduled flights. The Transport Secretary faces the choice of taking the decision himself or leaving it to be ground out by market forces. In any event the under-utilised capital at Prestwick will inevitably become another unemployed Scottish resource.

There are faint grounds for optimism that the Highland Express scheme will restore Prestwick's viability and there is little time to effect the necessary restructuring. The air transport industry

is moving out of a recession which has forced the carriers to be more efficient and aggressively competitive. The industry is adapting to and gearing up for a more liberal operating environment. Future decisions will be made on strict economic criteria and the present UK air transport infrastructure favours Manchester and the South East. Whilst it is not known how many non-London intercontinental hubs the market will bear, it is already clear that the airlines increasingly view Scotland's airports as spokes in the Manchester and London hubs. If Mr Ridley takes the risk of giving Prestwick one more chance through the efforts of Highland Express he will most likely condemn Scotland to be a satellite of the major UK airports.

Although Prestwick is marginal in the plans of the transatlantic carriers, at present Glasgow and Edinburgh are not. As suggested earlier, there is potentially a large business and leisure market in direct flights from Scotland to North America and other destinations. This potential cannot be realised given the present arrangements and Scotland is quite simply not able to compete effectively because of the past extravagance of artificially promoting three complementary Lowland airports. There is barely time to make the necessary adjustments.

The claims of Glasgow over Edinburgh are compelling but not irrefutable. Edinburgh may present the greater long run advantage since Scotland's economic centre of gravity has shifted eastwards. Edinburgh could be advanced as the strategic choice and it is the view of certain carriers, notably British Airways, that Edinburgh has the greater long-run potential. However, existing facilities and greater convenience for a larger number of consumers are arguments in favour of Glasgow. In addition, Glasgow and the West of Scotland, whilst depressed, are showing initial indications of recovery and there is the prospect of oil-related development. A transatlantic airport at Abbotsinch could facilitate economic development in west Strathclyde by serving as a viable growth pole. The Transport Secretary would do Scotland a service by allowing the carriers who wish to fly from Glasgow to do so and ensure that the required investment capital is made available. Pressure should be taken off the other Scottish airports by diverting charters to Prestwick and the feasibility

of promoting Prestwick as an aviation based industrial estate and cargo terminal should be explored.

This modest re-orientation of resources will require public sector investment and will, given existing aviation technology, preclude direct flights to the growth areas of Western America. This latter caveat is only short term in nature. Aircraft will increasingly require less fuel and shorter runways and will be quieter. This should be borne in mind when assessing the self-interested protests from Glasgow's suburbs. Given the pending regulations on aircraft noise allied to the decanting of charters to Prestwick, the environmental case against development of Glasgow would be extremely thin. It is not self evident that the retention of Prestwick is in the best interests of the Scottish economy.

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The Labour Market

Among economists there is a wide diversity of views on the operation of aggregate labour markets. At one extreme, Monetarist advocates of the 'Rational Expectations Hypothesis' tend to view the labour market as a highly flexible, efficient mechanism for the simultaneous determination of wages and employment. At the other end of the spectrum, the institutionalist wing of Keynesianism implies that wages and employment are determined largely independently of each other by institutional pressures and are more or less insensitive to market forces. However, most economists are now agreed on one very important aspect of labour market behaviour, namely that the employment relation tends to be **lasting**. The labour market is not a 'spot auction market' of the sort in which shares are traded. Rather, the employer/employee relationship tends to be a lasting one, characterised by the existence of explicit or implicit contracts governing working conditions, emoluments etc.

The durability of the employment relation is usually perceived to be a rational response to certain economic incentives, in particular the existence of significant 'fixed costs' of employment, ie costs which are unrelated to the degree of utilisation of the labour force. Major sources of such costs include: hiring and firing which involve the search costs associated with screening potential employees and redundancy payments respectively; and 'on the job training' which develops skills that are in some degree specific to the firm. In effect, the firm invests in the 'human capital' of its workforce, just as it does in the physical capital of its plant, and so it has an incentive to avoid labour turnover and reap a reasonable return on its investment.

Incomplete vesting of pension rights and attractive working conditions are two ways in which firms commonly seek to avoid losing out on their investments in the workforce. One important implication of

these disincentives to labour mobility is that they effectively create a labour market within the firm: the **internal** labour market. A given number of employees is capable of generating a wide variation in labour services both in terms of the number of hours they work and in terms of the effort expended per hour. Among other things, employer/employee interaction within this internal 'market' will determine the degree of utilisation of the existing labour force.

For present purposes the most significant feature of internal labour markets is that developments therein are likely to 'lead' (ie precede) developments in **external** markets and so provide a guide to what is likely to happen to future levels of vacancies, employment and unemployment. For this reason, this review of recent developments in the Scottish labour market begins with a discussion of indicators of activity in internal labour markets.

DEVELOPMENTS IN INTERNAL LABOUR MARKETS

The notion that activity in internal labour markets leads that in external markets is implied by recognition of the significance of fixed employment costs. Just as a firm undertakes physical investment on the basis of projected net revenues over a fairly long period of time, much the same is true of employment decisions (which are often human capital investment decisions), although the expected life of the investment will vary among the different types of labour and capital. In general, then, firms are unlikely to respond to an increase in export orders for example, by immediately resorting to the external market through advertising vacancies and engaging new employees. First, even if vacancies are immediately posted it is likely to take time to fill them, at least if potentially costly mistakes are to be avoided. Often an internal market response, through varying the hours of work of existing

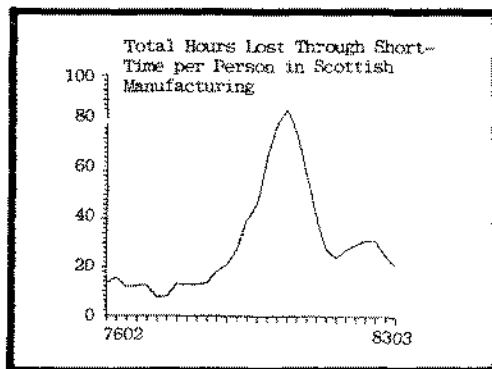
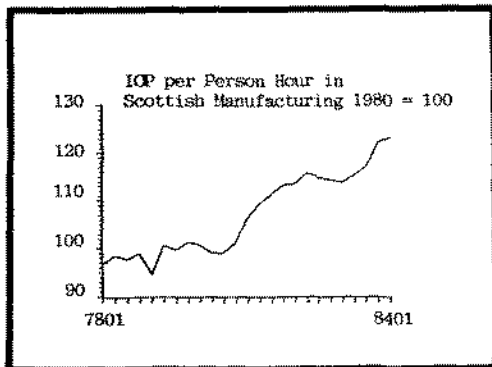
employees is the only feasible one.

Secondly, if the increase in orders occurs against the background of existing excess capacity, it may be that these orders can be satisfied with little increase in labour costs by internal labour market adjustments. This would be so if firms had been 'hoarding' labour in anticipation of an upturn in activity (and in recognition of the potentially high costs of first dispensing with, and then seeking to re-employ a part of their labour force) and so had accepted lower "effort per hour" than they would typically require of their employees. Thirdly, in general, firms are unlikely to know initially whether the increase in orders reflects the start of a permanently higher growth rate of sales, a permanently higher level of sales or simply a transitory, one-off stimulus. In such circumstances, an internal market response has the attraction of being easily reversed and so is potentially much less costly than resort to the external market, even if the response involves payments for increased overtime. Clearly, adjustments to stocks of finished goods may play a similar 'buffer' role for firms.

Data for Scotland permit the construction of three main indicators of the level of internal labour market activity: labour 'productivity', measured as output per hour worked; short-time working per employee and overtime working per employee. Conceptual and practical difficulties of applying these concepts to the service sector necessitate confinement of the discussion to manufacturing.

The interpretation of recent productivity changes, measured as output per employee, is discussed elsewhere in this issue of the **Commentary** (see Economic Perspective 2). The index of output per hour has been constructed by dividing seasonally adjusted manufacturing output by a seasonally adjusted estimate of total hours worked (which allows for overtime and short-time working). The output per hour measure corrects automatically for variations in hours per employee, and so partially adjusts the productivity measure for cyclical influences operating on both short-time and overtime hours. However, the main reason for preferring the output per hour measure in the present context is that it is more closely related to the

utilisation decision taken within the internal labour market. The marked increase in output per hour throughout the 1980s is subject to a number of competing interpretations which are considered elsewhere in this **Commentary** (see Economic Perspective 2). It would, in general, be a mistake to extrapolate current productivity gains mechanically into future vacancy and employment gains, although such a pattern has characterised past cycles.

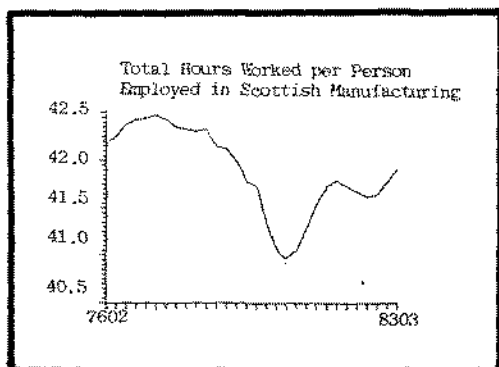


The graph of the 4-quarter moving average of total hours lost through short-time working per employee shows that while this indicator is currently much below its peak, it still remains above pre-recession levels. (The series is limited by lack of more recent employment data, and the observations for 1982 are affected by a change in classification). Furthermore, a part of the reduction may not reflect an upturn, but may instead reflect a belief that low levels of demand are to persist, so that the initial adjustment in the form of short-time working per employee has

been transmitted to the external market in the form of redundancies and/or quits in response to lower (perhaps implicit) wage offers. As discussed below, employment trends in manufacturing are not inconsistent with this view.

On the other hand, part of the reduced short-time working may reflect a pick-up in demand. The problem here is that there is little evidence of this for the manufacturing sector. Nevertheless, to the extent that such a pick-up may have occurred, would short-time working co-exist with overtime working? At the aggregate level, the answer is that there is no contradiction. Initial adjustments to increased demand seem likely to be felt in short-time working, then effort per hour variation and, finally, overtime hours. Different demand experiences among firms then account for the observed coexistence of overtime and short-time working.

Seasonally adjusted total hours per employee have 'recovered' to above pre-recession levels (though note that the 1982 figures are affected by a change in classification).



This increase in average hours could be interpreted as pressure of demand being felt initially in the internal market, but again it is important to recognise that this occurs against a background of continuing evidence of excess capacity and depressed demand in the manufacturing sector. It could, therefore, in part reflect similar influences to those on productivity considered elsewhere in this **Commentary** (See Economic Perspective 2). On the other hand, overtime adjustments,

on the above arguments, are the 'last resort' within the internal labour market and so may herald a spillover into vacancies and employment in the months ahead.

The 'buffer role' of internal labour market adjustments implies that considerable caution has to be exercised in their interpretation. Nevertheless, where the use of buffers exhibits regularity, such as would occur against a background of regular cycles, they can provide useful leading indicators of (external) labour market activity. This might reasonably have been argued to be the case until the mid-seventies. More recent behaviour has exhibited much less regularity, and extra caution is essential if errors are to be avoided, eg recent internal labour market developments reflect adjustment to a much lower level of the 'permanent workforce' which manufacturers now perceive to be required. Finally, as noted earlier, these indicators apply only to the manufacturing sector which has been the hardest hit in the recent recession. Recent experience would suggest that even unambiguous, accurate leading indicators of this sector's performance would be of limited use as pointers for the Scottish labour market as a whole.

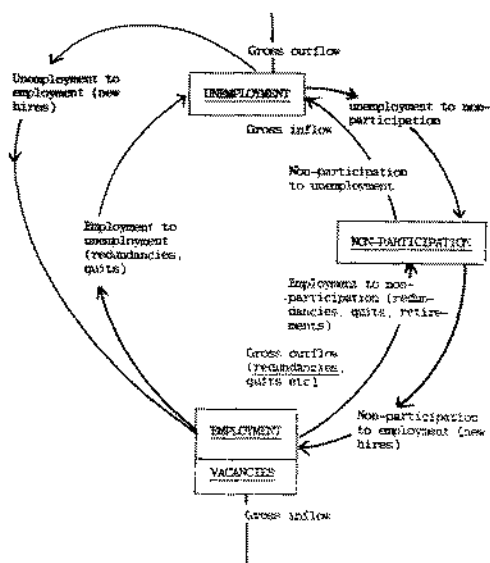
DEVELOPMENTS IN EXTERNAL LABOUR MARKETS

At any point in time an individual's labour market status may be characterised by membership of any one of three states: employment, unemployment and non-participation. The employed are, of course, 'in' the labour market, and even when not involved in active search for other jobs are necessarily participants in internal labour markets.

The unemployed, defined as those not currently in employment but actively seeking jobs (at prevailing wages), are also clearly 'in' the labour market. Non-participants are those who are forced by circumstance, or who elect to remain outwith the labour force, and are consequently not active in the labour market.

Naturally, through time, many individuals move from one state to another.

Redundancies, for example, create an outflow from the stock of employed persons and an inflow to the unemployment stock (and, in some circumstances, the non-participant) stock. New hires, in contrast, reflect an inflow to employment and an outflow from unemployment and non-participants. A simple schematic of the relationships linking stocks and flows in the labour market is set out in the accompanying diagram. The stocks in the labour market are represented by boxes and the flows by lines, where the arrows indicate the direction of the flow.



Those stocks and flows for which some relevant data exist for Scotland are underlined in the diagram. Clearly, some very important flows (such as, quits, new hires and the unemployment to non-participation flow) have no counterpart in official statistics. Nor is this the only sense in which a partial view of the labour market is the best that can be achieved, for official definitions of stocks and flows invariably deviate in some respect from those which economists would consider most meaningful. The most notorious example is 'unemployment' where official statistics in fact measure the

numbers registered as unemployed, rather than the number actively seeking work at prevailing wage rates. If there are some seeking work who do not register as unemployed (because of the lack of a financial incentive to do so) they will be mis-classified as non-participants and measured unemployment will understate the true level of joblessness. Conversely, to the extent that some of those registered are not in fact actively seeking work and so should be considered non-participants, measured unemployment exaggerates the scale of present problems. These ambiguities to some degree permit radically different policy responses to any given level of measured unemployment. Furthermore, there are, of course, problems concerning the accuracy of various series. For example, vacancy statistics are known to underestimate the true level of vacancies since firms are not required to register their requirements. These problems, which are by no means confined to Scottish data, should be kept in mind in the course of the following discussion of recent trends in the main measured stocks and flows in the Scottish labour market.

EMPLOYMENT: STOCKS AND FLOWS

Here the 'employment block' (ie the lower half of the diagram) is considered in relation to recent Scottish experience.

Table 1 Employees in employment in Scotland

	Total	Male	Female	
			All	Part-time
1982				
June	1,971	1,098	873	351
Sept	1,953	1,090	863	356
Dec	1,933	1,076	857	356
1983				
March	1,915	1,065	849	355
June	1,938	1,073	865	367
Sept	1,941	1,074	868	369
Dec	1,937	1,062	875	380
1984				
March	1,929	1,059	869	379

Source: Employment Gazette, August 1984

The general trend in **employment** remains negative both for Scotland and the UK (although on a seasonally adjusted basis employment in the UK exhibited a small increase in each of the last three quarters). On an unadjusted basis the number of employees in employment did rise slightly in the middle two quarters of 1983, but over the year as a whole employment continued to fall as it did (albeit slightly) in the first quarter of this year. In both Scotland and the UK employment is still almost 10% below the (very moderate) peak levels of 1979.

Inspection of the sex composition of employment lends some support to the view that male and female employment experience has differed somewhat in the recent past. Certainly 1983 saw some revival of female employment in both Scotland and the UK, and on a seasonally adjusted basis the four quarters to March 1984 saw an increase in total female employees in employment in the UK in contrast to male employment experience. Part-time female employment shows signs of an upward trend in Scotland as well as the UK.

Table 2 Employees in employment in the UK

	Total	Male	Female	
			All	Part-time ¹
1982				
June	21,473	12,215	9,259	3,889
Sept	21,384	12,192	9,192	3,865
Dec	21,248	12,058	9,190	3,922
1983				
March	21,027	11,947	9,080	3,890
June	21,210	11,982	9,228	4,012
Sept	21,316	12,057	9,259	4,017
Dec	21,349	12,004	9,345	4,134
1984				
March	21,217	11,921	9,296	4,103

¹Part-time figures are for GB
Source: Employment Gazette, August 1984

At least a part of the explanation of the slightly more favourable employment experience of females may be their concentration in industries which have

fared rather better in the recession. The data in Table 3 are consistent with this view. The (unadjusted) number of employees in employment in the production and construction industries has fallen fairly consistently in recent quarters in Scotland, and the trend is even more marked in the manufacturing component of that group. In contrast, employment in the service industries, in which female employment is concentrated, has tended to increase over the interval, although by rather modest amounts.

Since part-time female employees are even more heavily concentrated in the service sector than females as a whole, the varying fortunes of different industries may well account for the employment trend here too. In the absence of more detailed data and an in-depth analysis, it is difficult to determine the extent to which female employment differs from what would be 'expected' simply on the grounds of a changing industrial composition (given traditional male/female employment patterns). Nevertheless, the evidence seems not inconsistent with the hypothesis that industries may be resorting to more flexible forms of labour input (ie forms which are less costly to dispense with should the need arise) as a means of coping with the current uncertainty concerning their likely future. (See Economic Perspective 2.)

Table 3 Employees in employment

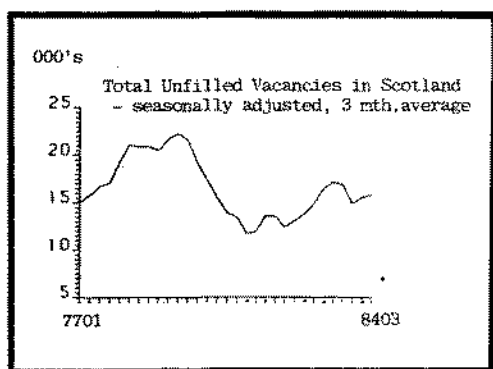
		Production & construction industries		
		Services	Manufac	
June 82	687	1,239	479	
Sept 82	681	1,228	474	
Dec 82	670	1,219	464	
March 83	657	1,214	455	
June 83	651	1,245	450	
Sept 83	652	1,245	449	
Dec 83	646	1,248	444	
March 84	640	1,248	440	

Source: Department of Employment

Further tentative support for this interpretation of recent events is provided by the June 1984 Scottish results of the Joint Manpower Watch Survey which covers virtually all local authority staff. The survey reports overall employment little changed as compared to June 1983 at 252.3 compared to 252.9

thousand in full time equivalents a year earlier, a shift in the composition of employment in favour of part-time and against full-time employees. Thus full-time manual employment over the year to June 1984 fell by 2,119 (-2.9%) whereas part-time manual employment increased by 1,709 (+2.7%). Employment of full-time non-manual workers increased by 372 (+0.3%) whereas the comparable part-time figures are 663 and +5.2%. Again, however, it is not possible to determine precisely the extent to which this shift can be 'attributed' to the changing occupational composition of local authority employment. Consequently, the view that local authorities may have responded to the current uncertainty of their environment by seeking to substitute part-time for full-time employees should be treated with some caution.

Although the stock of unfilled vacancies is attached to the employment stock in the schematic diagram, they in fact reflect an intermediate step between firms' perceptions of a need for employees and resulting new hires. This stock tends to grow as firms decide there is a need to increase employment, but decline as new hires fill existing vacancies. Both firms' demands for employment (and their need to register vacancies prior to filling the post) and new hires tend to increase with economic activity, but the former influence tends to predominate so that vacancies tend to move procyclically, the last peak occurring in the third quarter of 1979.



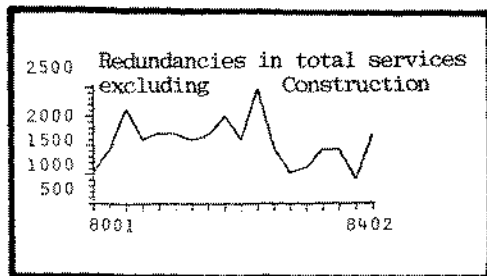
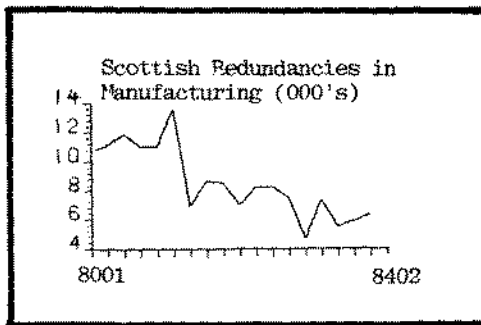
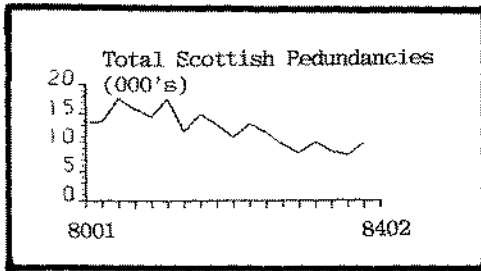
The tendency for Scottish vacancies to increase over the last three quarters of 1982 and the first three of 1983 is not, as has been shown, reflected in any

obvious pattern in employment, indeed the general trend in the latter is negative. This relation could reflect a number of factors. First, it could be that the contraction in employment has created vacancies. This would be most likely if contraction reflected quits, but comparatively flat output levels suggests that this is not in fact the case. Secondly, it could reflect a desire by firms to substitute one type of labour for another, although again it would seem sensible for firms to achieve this via the mechanism of voluntary separation. Some evidence on this is provided by the redundancy data discussed below. Finally, this recent inverse vacancy-employment relation may reflect increased difficulties in maintaining the rate of new hires. Again, however, the general level of activity makes this unlikely.

The drop in this measure of vacancies in the fourth quarter of 1983 and first of 1984 has not had a detectable effect on the employment figures, suggesting perhaps that other employment flows have had offsetting effects. In the second and third quarters of 1984 vacancies in Scotland again rose, as they did in the UK. It should be noted that vacancy inflows and outflows (at least for the UK) tend to be of the same order of magnitude as the existing stock, so that the incomplete coverage of vacancy data suggests that considerable caution should be employed in their interpretation.

The number of redundancies for all industries and those for the manufacturing and service components are presented below. The mere existence of redundancies in any sector or in the economy as a whole is not necessarily a matter for concern. Even in a buoyant mixed economy patterns of demand are continuously shifting among different products, creating redundancies in some firms and stimulating new hires in others. Even large gross flows out of employment are not a matter for concern provided that they are matched by large gross inflows (of a comparable skill composition and spatial distribution). However, whilst there have been signs of a degree of recovery in the Scottish economy, it is currently far from buoyant and the redundancy figures have to be interpreted against the background of a continuing decline in aggregate employment. The increased level of redundancies in the second quarter of this

year is thus a matter for concern in view of the absence of any marked seasonal pattern.



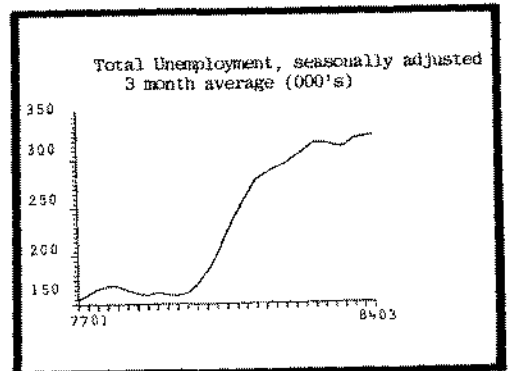
Redundancies in manufacturing increased in the first two quarters of this year, whereas those for services (excluding

construction) declined in the first quarter and then increased significantly in the second quarter. However, even the absolute level of redundancies in services remains very significantly below that in manufacturing (note the different vertical scales in the latter two diagrams) and this despite the fact that employment in the service sector is much greater than in manufacturing. Nevertheless, the comparative redundancy rates would exaggerate the advantageous position of services in view of the higher concentration in that sector (and construction) of very small firms which are not required to report redundancies. The continuing high levels of redundancies in the manufacturing sector have not been offset by other flows into employment and so employment in that sector has continuously declined in the recent past.

UNEMPLOYMENT: STOCKS AND FLOWS

This section is concerned with the 'unemployment block' (ie the upper half of the schematic diagram) in relation to recent Scottish experience.

The seasonally-adjusted three-month average level of unemployment (excluding school leavers) increased in the first three quarters of this year, reaching 324.6 thousand by September. This represents an unemployment rate of 14.4% - an unprecedented level for this series. Unemployment did fall slightly in October as compared to September, but the (monthly) unemployment rate for both months was 14.5%.



The tendency for unemployment to increase is not confined to males, with a current

unemployment rate (calculated on a monthly basis) of 17.6%, but is also apparent among females for whom the comparable unemployment rate is 10.3%. In view of the evidence of their slightly more favourable employment experience, this suggests a greater relative flow of females from non-participation to employment whether in the form of 'first time' entrants and/or those returning to seek employment. Traditionally, genuine female unemployment is under-recorded in recessions (ie is misclassified as non-participation) because the proportion of females eligible for benefits is rather lower than for males. Part of the increase in service sector female employment may then be drawn directly from the stock of non-participants and so does not influence registered female unemployment.

Even if the most favourable interpretation of recent internal labour market trends is accepted and recent changes in vacancies viewed optimistically, it seems unlikely that unemployment will fall noticeably in the near future in the absence of considerable output growth.

It would, however, be incorrect to visualise the stock of unemployment as an economically stagnant 'pool'. In October 1984, for example, the (unadjusted) level of employment was 342.9 thousand, but the inflow was 42.1 and the outflow 45.2 thousand. With this level of gross flows the entire existing unemployment stock could turn over completely every eight months or so. Nevertheless, the same doubts must be raised concerning the presumption of some Monetarists that unemployment is predominantly 'voluntary', undertaken perhaps with a view to searching the labour market for better paid opportunities. Whilst the 'stagnant pool' vision of unemployment is inapplicable to Scotland, the 'voluntary separation-temporary search' vision seems at least equally inappropriate (notwithstanding the strained interpretation of redundancies which such a vision necessitates). Fortunately, there are Scottish data which permit a rather more detailed look at unemployment stock/flow relations.

These data indicate that the median duration of completed spells of

unemployment in Scotland for the second quarter of 1984 was 17.2 weeks. This measure of duration, however, focusses exclusively on the experience of those who actually left the register over this interval to join the employed or the (officially defined) non-participant stock. The evidence suggests that the unemployment experience of those leaving the unemployment stock is quite different from those who remain, for the median duration of those continuing in unemployment was 37.8 weeks as of the end of the second quarter of 1984. It is quite clear that, for Scotland (as indeed for the UK as a whole) those leaving the register have a markedly more favourable unemployment experience than the stock of unemployed considered as a whole, although even the latter typically have been unemployed for four months.

INDUSTRIAL RELATIONS IN SCOTLAND

The focal point of industrial relations in Scotland continues to be the mining dispute. Nevertheless, the strong sense of impending redundancy and resulting industrial conflict elsewhere in the public sector, indicates the likelihood of a changing focus in the New Year.

Concern over the future of Ravenscraig surfaced with the leaking of British Steel plans which indicated only low levels of investment in Scotland as compared with other steel-making areas (See Industrial Performance; Metal Industries). In shipbuilding and offshore work the rising numbers of employees on fixed short-time contracts; and the more extensive use of sub-contractors, have led to concern as to the future levels of employment. Insecurity and change also underlie sporadic industrial action in local government.

The sense of an impending clash is possibly strongest in education. The formation of consortia of schools with resultant timetable changes and reallocation of pupils has already led to industrial action. The implications of the Munn and Dunning reports on assessment methods, the introduction of the 16+ Action Plan, declining school rolls, and,

hence, school closures, continue to sour industrial relations in this sector. In addition to these problems are questions of cover for absent teachers and the decline of teachers' pay in the salaries league. The combination of these factors is likely to lead to an escalation of industrial action in the New Year and to continued intermittent action for some time.

PROGNOSIS

Against the background of conventional cyclical behaviour, recent trends in indicators of internal labour market activity would offer cause for moderate optimism concerning likely future vacancy and employment changes in manufacturing. Traditionally, the recent productivity boom, increase in overtime hours per employee and reduction in hours lost through short-time working per employee would be welcomed as 'good news'. However, recent experience does not conform to conventional cyclical behaviour and the continuing adverse trends in manufacturing employment serve as a stark warning against the value of extrapolation from past cyclical experience. There seems little genuine cause for optimism regarding the manufacturing sector.

Manufacturing is, of course, only one sector of the Scottish economy, but the performance of other production industries considered as a whole seems unlikely to be markedly different if recent past experience is anything to go by. The continuing relative strength of the services sector provides a basis for some optimism, as a source of at least partial compensation for the likely employment losses elsewhere. With current levels of demand, however, there seems little prospect of much change in unemployment levels in the immediate future.

Regional Review

REGIONAL LABOUR MARKETS

The calculation of seasonally adjusted estimates of unemployment and vacancies continues to present major statistical problems. This section reports seasonally unadjusted estimates and compares these with the corresponding estimates of a year ago. This should give some indication of recent trends in labour market conditions at the regional level.

The latest figures for October 1984 show that conditions remain poor, by historical standards. Indeed, if current trends continue, the situation will worsen. Total Scottish unemployment, unadjusted for seasonal variation, now stands at 343,090, a rise of 9683 over the period. There is significant variation in the registered unemployment rates between the regions, ranging from 19.3% for the Western Isles, to 7.6% in Grampian. All regions, with the exception of Borders, Tayside and Shetland, experienced an increase in unemployment. The largest changes occurred in the Highland, Western Isles and Fife regions, where the percentage rates increased by 2.2%, 1.7% and 1.3% respectively.

Table 1 Unemployment by Scottish region

	Total	Change since Oct 83	Rate % Oct 84	Rate % Oct 83
Borders	3,420	- 62	9.0	9.1
Central	18,293	531	16.2	15.4
Dumfries & Galloway	7,646	333	13.2	12.7
Fife	19,445	1,203	14.8	13.5
Grampian	16,774	744	7.6	7.4
Highland	12,499	2,327	14.7	12.5
Lothian	44,733	1,315	12.7	12.0
Tayside	24,750	- 129	14.2	14.3
Orkney	745	26	10.7	10.7
Shetland	669	- 36	5.4	6.0
Western Isles	1,927	214	19.3	17.6
Totals:	343,090	9,683		

Source: Department of Employment

There has also been a marginal increase over the same period in the number of vacancies reported. In all, 18,264 vacancies were reported for Scotland in October 1984, a rise of 302. The majority of regions experienced little change, with the exception of Lothian (+24%), Tayside (-26%), Fife (-19%) and Shetland (-51%).

Table 2 Vacancies by Scottish region

	Total	Change since Oct 83
Borders	407	40
Central	1,031	- 13
Dumfries & Galloway	359	22
Fife	822	-197
Grampian	2,631	-231
Highland	862	34
Lothian	3,371	822
Tayside	699	-249
Orkney	44	0
Shetland	43	- 45
Western Isles	85	9
Strathclyde	7,910	110
Totals	18,264	302

Source: Department of Employment

These changes in unemployment and vacancies have combined to produce an overall worsening in the unemployment/vacancies ratio for most regions (see Table 3). The figures in brackets provide a measure of this ratio on the assumption that the MSC estimate that only one third of actual vacancies are reported, is correct. However, it may also be the case that the vacancies that do exist do not match up with the characteristics of the unemployed, whether in terms of skill or location. Thus, these figures should be interpreted carefully. They provide an indication of general labour market conditions rather than an estimate of jobs available per unemployed person. On closer examination, Table 3 reveals that U/V ratios deteriorated in 9 out of 12 regions over the year to October. This can be interpreted as a further sign of decline in the fortunes of

regional labour markets.

Table 3 Unemployment-vacancy ratio by region

	October 1984	October 1983
Borders	8.4 (2.8)	9.5 (3.2)
Central	17.7 (5.9)	17.0 (5.7)
Dumfries & Galloway	21.3 (7.1)	21.7 (7.2)
Fife	23.7 (7.9)	17.9 (6.0)
Grampian	6.4 (2.1)	5.6 (1.9)
Highland	14.5 (4.8)	12.3 (4.1)
Lothian	13.3 (4.4)	17.0 (5.7)
Strathclyde	24.3 (8.1)	24.2 (8.1)
Tayside	35.4 (11.8)	26.0 (8.7)
Western Isles	22.7 (7.6)	22.5 (7.5)
Orkney	16.9 (5.6)	16.3 (4.5)
Shetland	15.6 (5.2)	8.0 (2.7)
Scotland	18.8 (6.3)	18.6 (6.2)

Note: Figures in brackets show the unemployment/vacancy ratio on the assumption that the true number of vacancies is three times the number notified.

Source: Dept. of Employment

Further data derived from the computerised count of unemployment, makes it possible to replicate the analysis of the February Commentary. This should shed some light on the validity of the conclusions reached in the course of that analysis. By comparing various measures of unemployment experience, it was concluded that regions fare consistently well or badly. There was a tendency for regions with high unemployment to also exhibit a longer duration of unemployment spells, a lower probability that an unemployed person would leave the register in a given period; a higher probability that any member of the workforce would become unemployed, and more frequent spells of unemployment in any given time period.

It is convenient to remember that the analysis which follows rests upon the following assumptions: (1) that the labour force is homogeneous (2) that no individual entered, left and re-entered the register during the period of study and (3) that the stock of unemployed persons was constant during the period. The data used were flows onto and off the register and duration figures for the

stock of unemployed by region. All figures refer to the second quarter of 1984.

Table 4 Measures of duration by region

Region	Medium duration of continuing spells (weeks)	Median duration of completed spells (weeks)
Borders	28.2 (7)	13.6 (8)
Central	35.0 (5)	17.5 (5)
Dumfries & Galloway	35.4 (4)	21.0 (1)
Fife	30.8 (6)	15.7 (7)
Grampian	23.8 (9)	9.9 (10)
Highland	21.3 (10)	11.8 (9)
Lothian	35.6 (3)	16.4 (6)
Strathclyde	43.2 (1)	19.2 (2)
Tayside	36.2 (2)	17.7 (4)
Western Isles	26.4 (8)	19.2 (2)
Scotland	37.8	17.2

Note: Figures in Brackets denote regional rankings

Source: Dept. of Employment

Table 4 compares two measures of duration for all regions for which data were available. These are the median duration of completed and of continuing spells of unemployment. The former gives an indication of the length of unemployment spell experienced by those leaving the register during the period, whilst the latter refers to the median spell experienced by those who remained on the register at the end of the period. As expected, figures for the completed spells are consistently below those for continuing spells. This is because there will be a fair number of people who, for a variety of reasons, will remain on the register for only a short period, lending a downward bias to the completed spells measure. This will include those whose employment is of a short term nature (eg construction workers) and those changing jobs but with an intervening period on the register. Conversely, it would be expected that those with a particular employment disadvantage (eg unskilled workers) will tend to experience spells of relatively longer duration lending an upward bias to the continuing spells measure.

From Table 4 it can be seen that there is a tendency for both measures to be greater in areas of higher unemployment. This is

to be expected as high unemployment implies less opportunities to leave the register. There is, however, quite a wide variation in regional experience. The median spell of continuing spells in Grampian, at 23.8 weeks, is almost half the length of a continuing spell in Strathclyde. Similarly, Grampian records the lowest median completed spell, again half that of the region with the largest durations. Figures in brackets refer to regional ranks, the ranks progressing from longest to shortest. This highlights the tendency for regions to perform relatively well or badly on both measures.

Table 5 tabulates the results of a number of measures. The first, the probability of leaving the register during the second quarter of 1984, is simply the off-flow during that period divided by the stock of unemployed at the end of that period. It should give some indication of the possibility that any person would leave the register during that period. The second measure, the expected duration of an unemployment spell, is the inverse of the first.

Again the tendency is for the regions with a relatively favourable unemployment rate also to fare best on these measures. Thus, an unemployed person in Grampian had a far greater chance (58%) of leaving the register during the second quarter than a comparable person in Strathclyde (32%). By inverting this measure it can be seen that the unemployed in Strathclyde can expect a significantly longer spell of unemployment than their counterparts in Grampian region. Most regions follow this tendency, and again there is quite a wide variety of experience.

The final two measures, the probability of becoming unemployed and the expected frequency of unemployment spell, are shown in Table 5. The former is equivalent to the number of people joining the register divided by the total labour force of the region. The higher the measure, the greater the probability that a worker in that region would become unemployed. By inverting this measure some indication is given of the frequency with which a worker can expect to experience a spell of unemployment. A similar picture emerges, those regions with relatively higher unemployment rates tending to perform worse and vice versa.

Table 5 Regional unemployment experience

	B	C	D&G	F	G	H	L	S&G	T	WI
Probability of leaving register during 2nd quarter '84	48	38	41	39	59	51	35	32	40	43
Expected duration of unemployment (weeks)	25	32	29	31	21	23	34	41	30	28
Probability of joining register during 2nd quarter '84	4.2	6.1	4.9	5.9	5.1	9.3	5.0	5.9	5.6	6.1
Expected frequency of unemployment spell (months)	71	49	61	51	59	32	60	51	54	49
Overall ranking	9	1	6	5	10	8	7	1	2	4

Note: Figures for Orkney & Shetland not available. Estimates of employed labour force for each region are based upon the estimated unemployment rates provided by the Department of Employment. Those themselves are based upon estimates of employed labour force for June 1983.

Key: B: Borders, C: Central, D&G: Dumfries & Galloway, F: Fife, H: Highland, L: Lothian, S: Strathclyde, T: Tayside, WI: Western Isles.

Source: Dept. of Employment

The above measures are all related to turnover in the labour market in some way or other. For instance, if the magnitude of on-flows and off-flows were to increase in isolation, then some improvement in these (non-inverted) figures would occur. As such, they need not be directly related to the level of unemployment itself, but are alternative measures of the volume of labour market activity. However, the results seem to suggest some positive relationship between these alternatives.

The final row of Table 5 gives the sums of the ranks for each region over the 6 measures of unemployment experience. To recap, these measures are the unemployment rate, the u/v ratio, the two measures of duration and the two probabilities. Those regions with the lowest ranks are the ones with the relatively less favourable unemployment experience. In all, these findings confirm the conclusions of the February **Commentary**, vis a vis the overall impact of unemployment. Furthermore, comparison of Table 5 with the corresponding table for February shows

that, whilst there is some change in the magnitude of each measure, the rank orders of the regions have remained fairly stable. Again three distinct groups of regions can be identified. In the first, Strathclyde, Western Isles, Tayside and Central regions, continue to bear the biggest burden of unemployment. In the second group, the performance of Grampian and Borders regions is consistently, and significantly better. In the third group comprising Highlands, Fife, Dumfries and Galloway and Lothian, performance lies somewhere between these two extremes.

Given the differences between the two periods of study, the consistency of results implies that there exist fairly entrenched differences within Scotland, which can be explained by a number of factors. The most important is the differences that exist in the industrial structure of the regions. Those regions most badly hit by the current recession have in the past accounted for a significantly high proportion of Scotland's manufacturing base. The disproportionate impact of the current recession on manufacturing, has thus had a greater detrimental effect on these areas. Conversely, Grampian region is at the centre of the oil-boom, while in the Borders their traditional industries have lost relatively less ground. This has insulated that region from the worst of the employment effects of the current recession. However it should be remembered that in these regions also, unemployment is high by historical standards. It is only their relative performance that gives some grounds for comfort.

These results can be of use in helping to assess the imminent changes in the coverage of regional policy. There is little rationale in diverting resources away from those areas where unemployment is a major problem. But even within regions there is exceptionally wide variation in the unemployment rates recorded in different travel to work areas (TTWA's). The Department of Employment has recently revised TTWA's and this is seen by some commentators as providing some clue as to how the coverage of regional policy will alter, on the basis that the major criteria for aid will continue to be the unemployment rate.

Table 6 lists the 20 worst TTWA's in terms of unemployment, and it is obvious that

the majority lie within the regions identified as relatively badly off by the above analysis. However, some lie outwith and would miss out on selective assistance if regions were the appropriate basis. The ability to select target areas at such a disaggregated level need not always be a good thing since it can lead to problems of boundary hopping etc. But, in this instance, it should, on balance, direct aid to where it is more needed as most of the worst areas also lie within the worse off regions. Boundary hopping would only then alter the balance between TTWA's but some relative improvement in the regions performance should still be expected.

Table 6 Travel-to-work areas and unemployment rates

Travel-to-work area	Unemployment rate %	Travel-to-work area	Unemployment rate %
Irvine	25.7	Alloa	19.7
Cumnock & Senguhar	23.5	Kilmarnock	19.5
Sutherland	22.1	Western Isles	19.3
Girvan	21.8	Skye & Wester	
Invergordon & Dingwall	21.7	Ross	19.2
Lanarkshire	21.6	Greenock	19.1
Bathgate	21.5	Falkirk	17.9
Dumbarton	21.1	Arbroath	17.8
Forres	20.4	Glasgow	17.6
Newton Stewart	20.3	Dundee	17.4
		Dunoon & Bute	16.9

Source: Dept. of Employment

SCOTTISH BUSINESS SURVEY: EMPLOYMENT TRENDS

Data from the new Scottish Business Survey can be used to give some indication of likely employment trends in some of the Scottish regions over the coming 3 months. The data are disaggregated by participating Chamber of Commerce and by industrial sector.

The results for Glasgow chamber are not encouraging (see Table 7). A substantial balance of respondents (-7%) in the "All Manufacturing" sector expect employment to fall in the next three months. In only three categories, Wholesale and Retail Distribution and Electrical and Electronic Engineering, is employment expected to increase.

REGIONAL TRENDS

Table 7 Balance of respondents expecting a change in total employment

Sector/Chamber	Glasgow	Edinburgh	Aberdeen
All Manufacturing	- 7	30	-11
Construction	-24	- 9	-50
Wholesale Distribution	23	-14	-28
Retail Distribution	52	18	46
Metal Manufacture and Metal Goods	- 8	5	-
Mechanical Engineering	-20		
Vehicles and other Transport Equipment			
Electrical and Electronic Engineering	31	96	-
Food, Drink and Tobacco	-14	-32	5
Textiles, Leather, Clothing and Footwear	-18	-	-
Miscellaneous Manufacturing	0	9	-53
Paper, Printing and Publishing	-	15	2
All Manufacturing and Oil Related Industries	-	-	27

- Not available

Source: Fraser of Allander/Chambers of Commerce, Scottish Business Survey

The Edinburgh results are marginally better but are derived from a significantly smaller sample. Employment in all manufacturing is expected to increase by a balance of 30% of respondents. Much of this can be traced to the Electrical and Electronics sector, which expects to continue expanding vigorously.

Figures for Aberdeen are greatly influenced by the oil industry. The impact of its inclusion along with All Manufacturing is to turn a balance of +11% of respondents expecting total employment to fall, to a balance of 27% expecting it to increase. Overall, although relative sectoral and regional fortunes may vary substantially over the coming months, the survey suggests that there will be little change in employment at the aggregate level.

Borders

The continued relative strength of the Borders economy has been further demonstrated over the last quarter. Neve Electronics Ltd of Kelso have won orders worth £230,000 for sound control consoles from two Moroccan companies. The Kelso company has also secured a £120,000 contract from Recording Audios in England. Keltex Electronics, also of Kelso, have recruited a further twenty-seven employees. Borders-based textile companies also continue to do well, particularly Hawick knitwear firms.

Central

Closure of the Re-Chem international toxic-waste plant was announced by the Southampton-based company with the loss of 50 jobs. The premature shutdown (the plant was not due to close for at least another five months) followed the workforce's refusal to destroy existing stocks of polychlorinated biphenyls (PCBs) which are stored on site. PCBs give off deadly dioxin gas if they are not properly incinerated. Re-Chem has denied that it is closing the factory as a consequence of increasing public disquiet about the environmental impact of the plant's operation. Rather, Re-Chem claim that closure is due to financial considerations.

Dumfries and Galloway

ICI's faith in the future of its petrochemical and plastics plant at Dumfries was further demonstrated by the recent announcement of additional investment in the facility. This follows the £35m invested in 1983 which added 20 jobs to existing 1,100 workforce. It seems likely that about 60 permanent jobs will result from this latest investment when production starts in 1986. The plant will produce polyester film which has a variety of industrial and commercial uses such as packaging, photographic films,

video and computer tapes.

Fife

Courtaulds have announced that 51 out of a total workforce of 83 at the company's Fabric Group Watson garment and PVC manufacturing plant at Newburgh are to be made redundant. This follows continued losses in the garment making business and low level of PVC sales due to overcapacity in the industry. The redundancies mean that the company will be withdrawing from garment making and concentrating resources elsewhere.

Grampian

The oil sector remains particularly healthy with forecasts of greatly increased activity. In the last few months several new fields have been approved or named by operators. Grampian now accounts for 49,500 of Scotland's oil jobs, 77% of total Scottish oil employment. Oil related employment figures for June 1984 show Grampian's share of Scottish onshore oil-related employment up by 3,189 on a year earlier.

	Grampian	Rest of Scotland
June 1983	46,317	16,975
Dec 1983	48,018	18,728
June 1984	49,506	14,540
Change over year	+3,189(8%)	- 2,435(-14%)

In manufacturing there are yet more redundancies in fish-processing and this trend is set to continue through the winter months. Clippa Seafoods issued redundancy notices to 50 employees at their Peterhead factory. Further evidence of the difficulties processors are facing came from Waterside Fish Company, also of Peterhead, which laid off 15 workers in November. This still leaves 40 to 50 small and medium-sized North East fish companies. However, with fish scarcity and high prices, many of the remaining processors could face a very difficult winter. More than 200 jobs have been lost in fish-processing since the start of the summer.

Elsewhere, Grampian Regional Council is to build a £100,000 factory at Mosstodoch and lease it to game processors, Bamels of Perth. This will not, however, create new jobs as the company are moving from their current factory at Fochabers. Joseph Walker, makers of shortbread, are seeking planning permission to build a new £1m plant at Aberlour.

Highlands and Islands

Although the last quarter has been a good one for this region in terms of employment creation, there is concern that the Highlands will be subject to cut-backs in regional assistance programmes during the government's regional policy review. It seems clear that Scotland, which last year received £270 million in aid, may have its allocation cut quite severely. The Highlands could be subject to the removal of development areas status for some or all of the following, Thurso, Badenoch and Strathspey, Inverness and Nairn, as emphasis in aid policy is shifted to job creation.

On a more positive note, the last quarter has seen a number of welcome economic developments. Marathon Oil has placed orders worth £100 million with Highland Fabricators at Nigg Bay and McDermotts of Ardasier. The Hi-Fab contract came at a crucial time for the yard. Recently the workforce had been reduced to just over 50 following the completion of the last order in May. However, the job of building two module support frames for the jacket, means that £7m worth of new investment will go ahead at the Nigg Bay facility. In total, this will bring the workforce up to 400 hourly paid staff, 320 maintenance and sub-contract personnel and 200 maintenance and equipment staff. McDermotts of Ardasier will assemble the 20,000 tonne jacket for the Brae B field, together with some other work for Marathon. This will give continuity of employment to the 2,046 permanent employees and 1,200 sub-contract workers.

Highland Hydrocarbons, an Inverness-based company, hope to start work early in 1986 on a £126m petro-chemical complex at Easter Ross. The plan involves reclaiming 113 acres of Nigg foreshore to construct a plant which will produce a

lead-substitute for use in petrol. Outline planning consent for the facility was given in May. The Secretary of State has already indicated that he will not exercise his right to call for a public enquiry.

neighbour, Livingston. The Japanese group, NEC, which already employs 200 people at its Livingston plant, has announced a further £75m worth of investment (see Industrial Performance; Electrical and Instrument Engineering).

Gaeltec, world pioneers in specialist electronics for use in hospitals, are moving into a new factory in Portree. They already occupy a unit in Dunregan. Gaeltec employ 19 at the Dunregan facility and will create 6 new jobs at Portree. The company manufactures pressure transistors and plan to produce monitoring and read-out units at the new factory.

Strathclyde

Strathclyde Regional Council has embarked upon an ambitious plan to secure EEC grants, worth £217m over five years, for the regeneration of Glasgow. There are 70 proposals in all and they have been put together by the Region, District Councils, the Government and the Scottish Development Agency. Thus far no estimate of the likely number of jobs to result if the plan is endorsed has been forthcoming.

Lothian

Quarterly economic news in Lothian has centred on the clash between the Regional Council and the Secretary of State about local government spending guidelines. According to Lothian Region, as many as 1,500 jobs in education, the police and social work will be in jeopardy if the Council meet recommended expenditure limits. If spending continued at present levels it would rise to to £15m above the guidelines. Lothian Region's Labour controlled Council hope that agreement can be reached with the Government which would allow the Region to restrict cuts to around £6m, 2% above guidelines, and thereby obviate the need for compulsory redundancies, although voluntary redundancies still seem likely. In the last three years, Lothian Region has shed 4,500 jobs.

The government has announced that redundancies will occur at Royal Ordnance factories throughout the UK. Up to 1,800 jobs are likely to go as a result of a significant fall-off in orders. The Ordnance factory at Bishopton, near Glasgow, will lose up to 460 jobs.

Tayside

The most important development over the last quarter has been the announcement from W L Gore, the US multi-national, of several major investments in the Region. Gore is to invest £6,000,000 in a plastic coatings plant at West Pitkerro. The operation will provide 125 jobs directly and up to 275 indirect jobs. Gore has also announced that more than 200 jobs will result as a consequence of the investment in a plant to be located in the high-technology park north of Invergowrie. The plant will produce micro-wave, co-axial transmission lines for super high-frequency signals. 700 more jobs could be created if Gore goes ahead with plans to invest £36m in Dundee by 1990.

The report of a working party set up in July by George Younger to examine possible action to improve the economic position of the Bathgate area following the closure of the Leyland plant has been published and includes 16 recommendations to improve the overall economic status of the area. They include improvements to road and rail communications, increased activity by the local enterprise agency, environmental schemes and the development of industrial sites. Mr Younger has already said that it is important that an early start be made to give effect to the working party's recommendations.

Bathgate's gloom contrasts markedly with the continuing success of its near