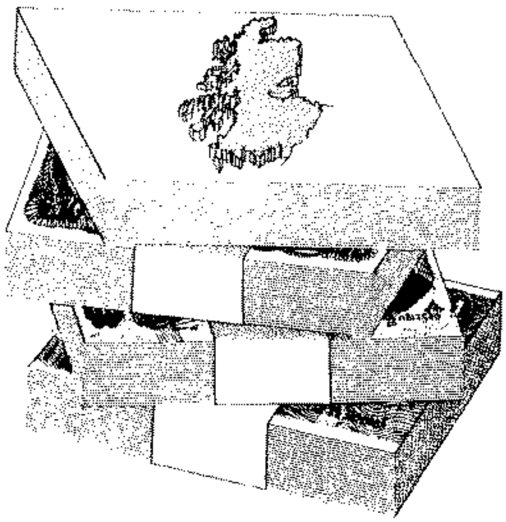
Industrial Performance



BUSINESS SURVEYS

With the inauguration of the quarterly Scottish Business Survey (SBS) in September 1984 there are now two regular up-to-date indicators of trends in the Scottish industrial sector. The combination of the new survey and the long-standing CBI Industrial Trends Survey provides a comprehensive assessment of trends in Scottish industry.

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

The results of the two surveys are first considered separately, and their combined verdict on Scottish manufacturing trends is then summarised. Both surveys were conducted against a background of a relatively strong pound, continuing high levels of nominal and real interest rates, and some reduction in the rate of inflation.

SCOTTISH BUSINESS SURVEY RESULTS

The fear expressed in the August issue of this **Commentary**, in analysing the results of the July Scottish Business Survey, that the high sterling exchange rate would depress manufacturers' expectations, is unfortunately vindicated by the results of the latest (October) Survey. Over manufacturing as a whole, for the fitst time this year a balance of respondents are less optimistic about the general business situation. Although a balance of respondents report higher orders and sales in the past three months, especially in the rest of the UK and abroad, and this upwards trend is expected to continue over the next three months, the longer-term outlook appears discouraging. Despite marginal increases in both male and female employment in manufacturing over the past quarter, the balance of respondents expect this trend to be reversed during the coming quarter, and orders or sales remain the overwhelming constraint on output growth. Investment intentions remain broadly unchanged since the last Survey.

Within manufacturing there are, as usual, distinct differences in performance and expectations among the nine sub-sectors identified in the Survey. At one extreme, the Textiles, Clothing and Footwear sector, in which capacity utilisation is reported at 99%, continues to perform strongly in UK (but not Scottish) and overseas markets, and this is the only sector in which there is a large balance of respondents who are more optimistic about the general business situation. Given the dependence of this sector on the export market, the sterling exchange rate is clearly not the only factor which affects competitiveness.

At the other extreme, in the Metal Manufacture and Metal Goods sector the picture is one of unqualified gloom, with significant negative balances on all indicators. The outlook is not much better in the Mechanical Engineering and Other Engineering sectors in which, although performance/outlook indicators are not uniformly bad, there is little sign of significant improvement and capacity utilisation in these sectors is very low (28% and 32% respectively). It is worth noting, however, that capacity utilisation in All Manufacturing rose from 57% in July to 69% in october, the highest level recorded since the inception of the SBS in mid-1984.

Responses and prospects for the other five sub-sectors are mixed. The most encouraging is Food, Drink and Tobacco; recent and prospective trends in new orders and sales in the rest of the UK and overseas, are favourable, and capacity utilisation is reasonably high, at 79%. Investment intentions have been revised upwards, albeit marginally, and respondents remain cautiously optimistic. In the key Electrical and Electronic Engineering sector, there is clearly some apprehension about future growth in orders and sales, although a balance of respondents reported higher orders and sales (though not employment) are expected in the current quarter. Investment intentions have also been revised upwards, in the majority of respondents in order to expand capacity. Despite these encouraging signs, a net balance of 25% of respondents are less optimistic about the general business situation.

In the Chemicals sector, although export orders and sales have been encouraging, the domestic market appears sluggish and expectations with respect to future orders and employment are depressed. In contrast, in the Paper, Printing and Publishing sector export prospects are clearly seen as the main constraint on growth. In Miscellaneous Manufacturing, although most indicators of orders and sales suggest continued growth, the general outlook is on balance pessimistic and capacity utilisation, at 47%, is low.

Scottish Business Survey September-October 1985

Balance of respondents reporting (%)

	Greater optimism	Growth in sales last quarter	Growth in new orders	Growth in sales next quarter
All Manuf.	-10	+16	+ 2	+12
Metals & Metal Prods.	-77	-52	-66	-71
Chemicals	-61	-25	-14	+20
Mech. Engin.	+12	- 6	-33	+11
Elec. & Elec. Engin.	-25	+26	+ 3	+31
Other Engin.	-45	-42	-	-42
Food, Drink & Tobacco	+ 5	+ 3	- 8	+20
Textiles, Clothing & Footwear	+24	+42	+47	+60
Paper, Print. & Pub	-21	+32	+28	+ 2
Miscell. Manuf.	-11	+41	+23	+18

Source: FAI Scottish Business Survey, October 1985

Employment prospects in manufacturing are not hopeful. In the three months to October, a balance of respondents reported higher male and female employment, but this is expected to reverse itself in the current quarter; only Textiles, Clothing and Footwear and, somewhat perversely, Mechanical Engineering expect higher employment in the current quarter.

CBI SURVEY RESULTS

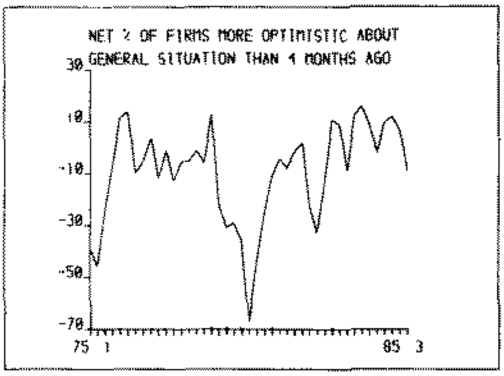
Results of the Scottish part of the CBI Industrial Trends Survey, conducted at the end of September, paint a similar picture to that of the SBS. For Manufacturing as a whole, a balance of respondents are less optimistic about the general business situation, though a net balance continues to report a higher volume of new orders and output in the four months to September, and expect these trends to continue over the next four months.

Unlike the SBS, however, a balance of respondents report fewer numbers employed in the past four months, and a further decline in employment is anticipated over the next four months.

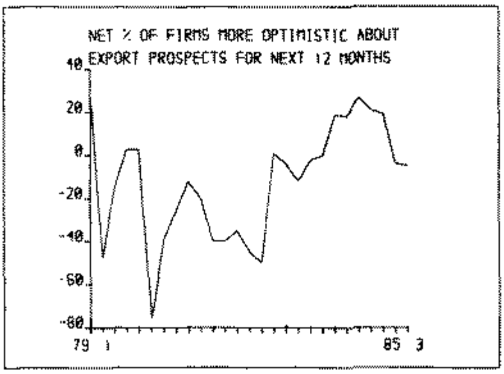
Analysed by size of firm, the CBI results indicate that the downward trend in numbers employed during the past four months has been most marked amongst the largest (500+ employees) firms: indeed small (0-199 employees) and medium-size firms reported a net increase in employment, and a tiny balance of respondents in the small firms group anticipate an increase in numbers employed over the next four months. This, however, is more than offset by expected reductions in employment amongst larger firms.

Although comparisons must be qualified, due to differences in coverage and questions asked, there are some apparent differences at the sectoral level between the SBS and CBI Survey results. In the Textiles sector, for example, CBI respondents are on balance less optimistic about general business conditions and export prospects, and while most indications on orders, output and deliveries (and employment) are positive, they are less strongly positive than the SBS respondents. In contrast, though generally gloomy, the CBI Metals and Metal Manufactures sector is less pessimistic than SBS respondents with regard to orders, output, deliveries and employment over the next four months. Results for the Chemicals and Food, Drink and Tobacco sectors are similar in the two surveys.

The CBI Survey does not distinguish separate sub-sectors of engineering. A balance of engineering respondents are less optimistic about the general business situation, but more optimistic about export prospects. The upward trends in new orders (especially export orders) and output are expected to continue, but numbers employed are predicted to fall and a balance of firms expect to authorise less capital expenditure over the next twelve months. In Other Manufacturing less optimism is again evident, and while a higher volume of new orders and output is anticipated over the next four months, numbers employed are expected to decline. In all sectors, orders or sales are seen as the main constraint on output, while in export markets prices are the most important factor for most sectors. An exception here is the Food, Drink and Tobacco sector in which quota and similar restrictions are considered the main factors limiting export sales growth.



Taken together, the two Surveys mark a distinct decline in general business confidence in the last few months though there are noticeable differences between sectors. Textiles, and to a lesser degree, Food, Drink and Tobacco, appear to offer the most favourable prospects for continued growth; in other sectors, although the indications are that output will continue to rise throughout the remainder of the year, a slackening of growth next year seems to be anticipated and further reductions in employment seem likely. The rise in the sterling exchange rate, combined with a propensity of British manufacturing firms to grant wage increases higher than those of their main international competitors, seems set to terminate the recent relatively buoyant growth in output.



AGRICULTURE

Between July and September this year Scotland experienced from 200%-350% greater rainfall than normal, with about 75% less sunshine. The NFUS have claimed that as a result 80% of the hay crop has been destroyed, and that as much as 40% of the grain harvest would *remain* uncut. The bad weather has affected not just crops, but all sectors of the industry from dairying to fruit and vegetable growing. The farmers' union estimate the losses by Scottish farmers attributable to the summer's weather at between £120 and £150 million.

Whatever the true figures might be, and they will never be known, there can be little doubt that the weather has had disastrous consequences for a large number of farmers, many of whom will be forced to leave the industry in the coming months as the serious fall in both the quantity and quality of animal fodder makes itself felt throughout the livestock sector.

Requests for Government aid have taken two forms: a proposal for interest-free loans guaranteed by the Government and repayable after two years, and the provision of surplus grain from EEC intervention stores at the world market price of £55 per tonne. The latter request is justified by the European Commission's decision to provide such assistance to farmers in Ireland, on both sides of the border, at a reputed cost to the Commission of some £5 million.

Appeals for Government assistance were initially rebuffed by the UK Minister of Agriculture, but two weeks later, at the Conservative Party Conference, Mr Jopling bowed to the political pressure and assistance to livestock farmers has been promised, although unspecified in form and amount.

The marketing organisation Scotch Quality Beef and Lamb Association (SQBLA) have achieved a notable success in persuading Marks and Spencer to promote Scotch Beef under the SQBLA label in more than half their UK stores. This is thought to be the first time that customers of Marks & Spencer will be able to purchase fresh food bearing a brand name other than their own "St Michael" label. Perhaps because of this success, SQBLA is having difficulty in retaining its previous share of Government funding. In addition to its income of £170,000 from farmers' voluntary contributions, it could have expected to receive a matching sum from the Meat and Livestock Commission. Instead, English farmers are putting pressure on the Commission to reduce its contribution to £85,000.

FISHING

The volume of fish landed at Scottish ports by UK vessels during the eight months to August was 314,533 tonnes, an increase of almost 7% over the same period of 1984. In value terms, the catch was worth £137.5m, a nominal rise of about 13% over 1984's level.

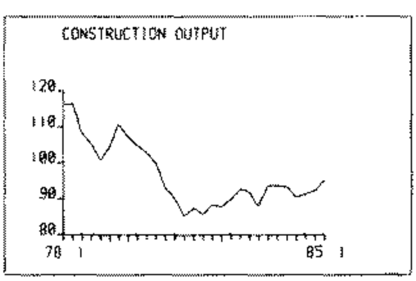
There were reductions in the volume of both the demersal and shellfish catches, but the pelagic catch rose substantially. The 5% fall in landings of demersal species to 201,535 tonnes was due mainly to small reductions across a number of species, but there was a fall of more than 20% in the whiting catch, largely because of a shortage in North Sea grounds. The other main catches - cod, haddock, plaice and saithe - have all risen in volume compared with last year, despite the lack of haddock stocks earlier this year. A greater supply in latter months has helped to improve the catch.

The volume of the pelagic catch in the first eight months of the year was just over 91,000 tonnes, 53% higher than in the corresponding period of last year, while the value of the catch increased by 56%. Landings of both mackerel and herring continued to expand: the mackerel catch rose by 65% to 29,268 tonnes, and the herring catch at 61,390 tonnes was almost 50% higher than in 1984. However, while mackerel have been attracting better prices than last year, pushing the value of the catch up by almost 90% to £3m, herring prices have failed, marginally, to keep pace and the value of landings has risen by 47% to £7.78m.

While shellfish landings fell 6% in volume relative to 1984, their total value rose by 15% to almost £25m. There were considerable increases in both the volume and value of some previously insignificant catches, such as velvet crab, mussels, squid and pink shrimps. In addition, catches of lobsters and Norway lobsters secured higher prices per tonne than in 1984, contributing a £3m boost to the value of the shellfish catch.

At a meeting of EEC Fisheries Ministers a Commission proposal, which had met with strong opposition from Scottish fishermen, was blocked by Britain. The proposal, as noted in the last **Commentary**, was to raise the permitted by-catch for Danish vessels fishing for Norway point in the North Sea. Objections were raised because such a measure was expected to be detrimental to the preservation of stocks in those waters. However, now that this particular proposal has been blocked, EEC officials will be seeking a compromise concession.

CONSTRUCTION



The construction industry in Scotland received a boost in the second quarter of 1985 when the total value of new contracts received stood at £379.3m, the highest quarterly figures since mid-1983 (although it should be noted that the figures record nominal, not real, values). This represents a rise of about 9.6% over the preceding quarter, and a substantial increase of around 19% over the corresponding period of 1984. It is very difficult to extract, from current price contracts, the implied volume of activity: deflating by current price or cost indices is insufficient since the value of the contract is often determined with reference to tender prices set in a previous period. As a very rough guide, then, to cost changes in construction activity, the index of average earnings in new construction and material cost indices for new work increased over the year to June 1985 by 7% and 6.8% respectively.

Much of the rise in orders received during the second quarter was due to an exceptional level of private sector housing contracts, and also to an improvement in demand for private sector industrial work. The value of orders for private sector housing was £95.65m, almost one-quarter of the entire value of orders received during the period. In contrast, the value of public sector housing orders fell to £17m, its lowest level over the last two years. There was a marked increase in the value of orders received for private sector industrial work, up by around 72% over the previous quarter's level, and almost 60% higher than that of the same quarter of 1984. The increase was due mainly to the placing of a substantial contract during the period, making it unlikely that a similar level of orders will be sustained next quarter.

The total value of contracts received from the private sector was £227.2m, representing a substantial increase over both the previous three months and the same period of 1984. Of the seven types of work, only orders for entertainment venues and offices showed a fall compared with last year. Contracts received for public sector work totalled £152.11m, a lower level than in the first quarter, but a relatively high figure by recent standards. For example, compared to the same quarter of last year orders in six of the eight categories of work identified showed at least small increases, the exceptions being housing and work for the health authorities.

Given the precarious nature of new construction work levels, too much should not be read into the improvement in orders received during one quarter. What may be safe to assume is that, on the strength of those orders, the volume of activity arising from orders placed in the first half of this year is likely to be higher than its counterpart in 1984.

Indeed, the latest Scottish Business Survey, referring to the quarter ending September, suggests pessimism in the construction industry in Scotland. 67 construction firms responded to the Survey, and the results are weighted by firm size. Actual trends during the quarter in new orders, work-in-progress and employment, are all reported to have been downward, and a net 22% of respondents are less optimistic about the general business situation than they were in the last Survey. Overwhelmingly, the level of demand is cited as the main potential constraint on future activity; orders from both central government and other public sources are expected to fall, while those from the private sector are expected to level off in coming months. The short-term outlook, therefore, is still viewed with some foreboding.

Total intended starts in new housing amounted 3,500 in the third quarter of 1985, according to NHBC figures. This represents a fall of only about 100 units from the previous quarter, so that, unusually, the rate of intended new housebuilding almost kept pace with the peak spring/summer months. In Great Britain as a whole, the number of intended starts departed from the usual seasonal pattern, by continung to rise during the third quarter, with a total of 46,200 intended starts registered with the NHBC. It would appear that builders in Scotland and in the rest of Great Britain are making up for their hesitancy in the first six months, which was probably in part due to expectations of high interest rates. The total number of houses completed for the Scottish private sector was 3,300 in the third quarter, bringing the total for the year so far to 9,600, roughly 3% higher than in the same period. Thus completions for the year now seem set to match the high levels achieved last year.

The Scottish Office also produces data on private sector housing starts and completions. These data are based on information provided by local authorities and probably give a more complete account of total housing activity since they take account of small-scale operations. Unfortunately, these official figures are less up-to-date than NHBC data. Nevertheless, they confirm the latter's recorded movement of starts in the first half of the year.

House prices moved at a sluggish rate in Scotland during the third quarter of 1985, according to the latest Halifax House Price Index. Indeed, following a sharp increase during the second quarter, there was a fall in prices recorded during the period to September, and this has brought the annual rate of house price increase down below 6%. The average price paid, over all housing, for a property during the third quarter was £30,015, around 8% below the UK average; Scotland ranks fifth out of the 12 areas identified in the UK in terms of the overall average property price, a position it has retained since the inception of the new Halifax survey. The most expensive category in Scotland is new detached housing, the average price of which is £47,812; on a more modest scale, post-war flats and maisonettes are sold for an average price of £19,182.

ENERGY: OIL AND GAS

During September, oil production averaged 2.6mbpd, the highest monthly figure since April. Following summer maintenance programmes, North Sea fields are now returning to maximum output. Total oil production in the first seven months of 1985 was 71.1 million tonnes, compared with total production of 120.8 million tonnes in the whole of 1984. Occidental's Scapa field came into production in September. The field has estimated recoverable reserves of 42mb, with peak production of 240,000bpd expected to be attained in 1988.

Offshore, an average of 32 exploration/appraisal drilling rigs were active in the UK North Sea between June and August. In July, Ranger Oil announced a significant gas discovery in block 4/26. The well recorded flows of 40 mcfpd, one of the highest ever registered in the North Sea. In October, Occidental announced a promising oil/gas discovery some 130 miles NE of Aberdeen.

Onshore, the UK's first round of oil and gas licensing attracted a strong response. By the deadline in late September, applications for 319 new exploration blocks had been received from 117 companies. Bidders included Shell, BP, Mobil and British Gas. Bidding appears to have been most keen for acreage in Lancashire, in the hope that the geological structures which produced the Morecambe Bay gasfield extend onshore.

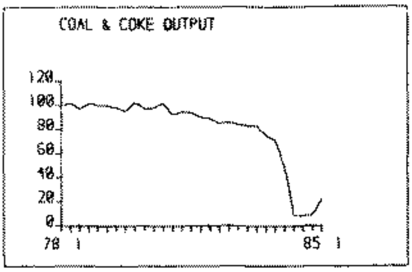
In September, Shell/Esso announced plans to develop the Eider field 117 miles NE of Shetland. In a development programme costing £640 million, Eider will be the first UK field to use an unmanned production platform which will be operated remotely from the North Cormorant platform. Eider has estimated recoverable reserves of 85mb and production is expected to begin in 1989.

The problems of OPEC continue to unsettle world oil markets. In September, Saudi Arabia announced that it would sell up to 500,000bpd at market prices rather than at the $28pd official price. This had the immediate effect of reducing the October delivery price of Brent crude by 10 cents pb. Furthermore, Saudi announced it was increasing production to 3.0-3.5mbpd, which, although still below its OPEC quota of 4.3mbpd, is considerably higher than the 2mbpd it had been producing in August. Further problems emerged in early October when six OPEC members demanded increases in production quotas, although the current collective ceiling of 16mbpd is already higher than existing or projected demand for OPEC crude. Other OPEC members, including Saudi, have strongly resisted accepting any cuts in their own production quotas.

Sheikh Yamani, the Saudi oil minister, has warned that, unless agreed and workable arrangements can be reached within OPEC, oil prices could drop to $15pb by next Spring. Such a price fall would not affect existing North Sea production, but could have an adverse impact on new developments. According to Bob Reid, Chairman of Shell UK, many new projects would not be economic at oil prices below $20pb.

In June this year, employment in Scotland wholly associated with North Sea oil and gas was 63,759, a 4.6% increase over the December 1984 figure. Over 52,000 of the June employees were recorded as being employed in Grampian region (though this figure includes some 26,000 offshore workers).

ENERGY: COAL, ELECTRICITY AND WATER



Coal and coke's index of industrial production for Scotland shows a rise from 9 in the fourth quarter 1984 to 22 in the first quarter 1985. The slow drift back to work of the miners in the first few months of the year are reflected in these figures. For the same quarter the UK index stood at 36. The index for other energy and water supply stood at 121, nine points below that of the UK as a whole. This is the highest first quarter Scottish index since the beginning of the 1980's but rather than reflecting an upturn in Scottish industrial and commercial fortunes ie an increased demand for electricity feeding through from revived Scottish industry, it is likely that this figure is boosted by exports of electricity to the CEGB as the miners' strike wore on. Figures for the rest of 1985 will be interesting as checks on whether or not this supposition is true.

In September figures were released by the NCB on the costs per tonne of producing coal in each of Britain's pits. For the Scottish Area costs per tonne and profit or loss per tonne are shown in the table.

Scottish area deep mined coal (August 1985)

	Cost per tonne £	Profit/loss £
Barony	58.28	-13.33
Bilston Glen	40.28	0.52
Comrie	42.38	-10.43
Killoch	51.33	- 3.96
Longannet Complex	34.53	1.91
Monktonhall	45.02	- 5.33
Seafield	84.28	-38.00

No figures were reported for Polmaise, Polkemmet and Frances collieries as these were not in production at the time. The reliability of these figures is also open to question as they are for one month only, part of which may have been a holiday period. Nevertheless, they do give some indication of the relative position of the various pits in Scotland as well as the Scottish Area's position vis-a-vis other areas. As can be seen, only Bilston Glen and the Longannet Complex are profitable per se but Comrie and Monktonhall come very close to the new NCB short-term cost target of £42 per tonne set in mid-October (a cost goal which must be achieved within the next two years). The proposed link-up of Killoch and Barony pits in Ayrshire coupled with the reduction in manning levels will move them much closer to this short-term target. The Seafield pit must remain a major worry as its cost per tonne, on the basis of these figures, is more than twice the target level.

In the new market-orientated strategy outlined by the Coal Board as a replacement for Plan for Coal, the long-term cut-off point is £39 per tonne, although there is no indication of when this figure is to take effect. There was a contradictory element to the NCB's announcement in September about their market strategy. While they suggested that pits unable to produce at a cost of £39 per tonne or below in the long-term would be closed they also said that long-term plans would be replaced by a planning cycle based on a yearly review. These two statements are somewhat incongruous. On the one hand, the Coal Board appear to be adopting a long-term pricing strategy but, on the other, a short-term supply or output strategy. We are all well aware of just how volatile energy prices can be on world markets (and the potential for coal prices to be volatile is there also), It is, therefore, especially worrying to have a publicly-owned industry apparently intent on acting outwith a long- to medium-term supply strategy. There have to be safeguards and insurances for all aspects of energy policy - whatever the Government's attitude towards the miners.

Since January 1984 32 pits have closed (with the loss of 11.1m tonnes of capacity) and a further 56 pits are expected to go by March 1987. These figures are based on the NCB's statement that it needs to trim deep-mined capacity by 10m tonnes to 90m tonnes per annum. This, in effect, will require a 30m tonne cut in old capacity as a further 20m tonnes of new capacity are coming on stream in the next two years. It is difficult to say what will happen after then as around that time the last additions to the AGR nuclear reactor programme will come on stream (replacing 13m tonnes of coal per annum) and the cross-channel link with the French electricity industry will be in place (expected to provide a further 4m tonnes coal-equivalent electricity per annum). Indeed, the only growth area envisaged for coal in the next few years are in industrial markets (as well as the short-term re-stockpiling undertaken by electricity boards) but the prospects in these are highly dependent on movements in the oil price. At present forecasts are that oil prices will remain sluggish although natural gas prices are expected to rise slightly. This will provide little in the way of "push factors" to make existing industrial oil users convert from oil to coal and an extension to the Government's conversion assistance scheme may be required.

The differences between striking and working miners during the coal strike have now been formalised in the formation of the Union of Democratic Mineworkers. The breakaway union has received majority support in Nottinghamshire, and South Derbyshire and parts of Durham and Lancashire. At present, there seems little support for it in the Scottish coalfield where relations between the NUM and NCB have improved since the departure of Albert Wheeler as Area Chairman.

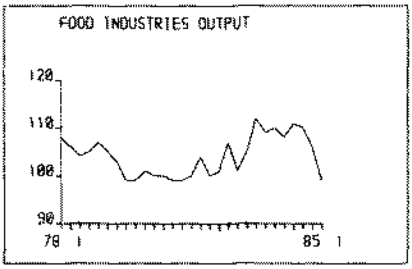
In October the Monopolies and Mergers Commission reported on the North of Scotland Hydro Electric Board. The report called on the Board to provide a more demanding overall cost reduction target and was critical of its standard of service to consumers. Part-time members of the Board have been asked to play a greater part in "determining strategy and setting targets".

The environmental impact statement commissioned by the UK Atomic Energy Authority into the proposed re-processing plant at Dounreay is to be made public.

This is to allow environmental and other interest groups time to prepare their cases for the public inquiry announced by George Younger. However, there is much criticism over Mr Younger's decision to make the inquiry local rather than full. This has distressed many interested parties such as the Orkney Islands Council and environmentalists who feel the restrictive nature of the inquiry will be grossly inequitable. This criticism seems fair as it is already a matter of record that the regional and district councils as well as the HIDB are in favour of the development. Given that the nuclear reprocessing programme has been halted in the United States because of public and expert pressure it would seem only reasonable to undertake a full-blown public inquiry into this first development rather than pay the consequences of some tragic and terrible mistake sometime in the future.

FOOD, DRINK AND TOBACCO

The results of the latest Scottish Business Survey for the Food, Drink and Tobacco sector indicate that respondents remain cautiously optmistic. Although only 19% of respondents experienced an upward trend in new orders in the last three months, 32% expected an increase in the current quarter. While 29% also reported an increase in the volume of sales in the last three months, 36% expect an upward trend in the next quarter. On balance respondents were pessimistic about prospects for both sales and orders in the home market with prospects elsewhere rather more buoyant, particularly in export markets.



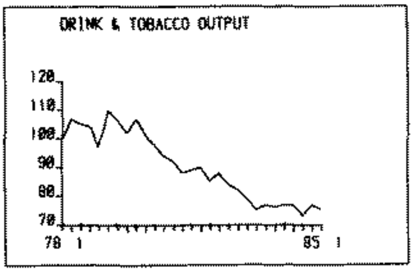
Estimates of the index of industrial production for the food industries suggest that Scottish output fell by 6% in the first quarter of 1985 and by 3% in the four quarters to the end of March. At 99 (1980 = 100), the Scottish index is at its lowest level for several years. The UK index declined by 2% to 103 in the first quarter of 1985 but remained unchanged in the latest four quarters compared with the preceding year. Provisional second quarter figures for the UK indicate that production has since fallen a further 2%.

Rowntree Mackintosh announced a drop in pre-tax profits from £22.3m to £20.5m for the 24 weeks to 15 June. Almost static sales in the UK and some loss of market share have been cited as reasons for the setback. The closure of the Rowntree Mackintosh factory in Edinburgh remains scheduled for early 1987 whereupon estimated annual savings of £7.5m will begin to be reflected in the company accounts.

In mid-October, the Argyll Group changed the names of its 77 Templeton stores in Scotland to Presto thus establishing a chain of 108 Presto supermarkets in Scotland. This move represents the first stage of a 3-year plan to transform the retail grocery side of the group's business and will bring total investment in Scotland this year alone to approximately £15m. United Biscuits, the Edinburgh-based restaurant, fast foods and biscuits company, is also reorganising its Scottish interests by converting some of its operations into wholly independent profit centres. These include Campbell's wholesale meat company, Mackechnies Foods and the Capital retail freezer centres. United Biscuits is also creating a new European foods division, UB Foods Europe, which will begin operations in January 1986.

Elsewhere in the industry, Euroscot of Bathgate have been awarded a contract worth £50,000 to supply prime quality meat to Monoprix, the French supermarket chain, and Swankies' Food Products of Arbroath is to invest in a 3,500 sq ft extension to its premises which on completion could lead to the creation of 20 new jobs in the area.

The index of industrial production in the Scottish drink and tobacco industries resumed a downward trend when it fell by 2% to 75 (1980 = 100) in the first quarter of 1985 and by 1% in the fourth quarter to March 1985 compared to the previous four quarters.



Declining trends in cigarette consumption and high taxation have posed serious problems for the tobacco industry for some time. The latest General Household Survey results confirm that the downward trend in cigarette consumption has continued in 1984. According to the survey, the proportion of people in Great Britain aged 16 and over who smoke was 34% in 1984 compared to 45% a decade earlier. Although the proportion of women smoking cigarettes has been consistently lower than that of men, the gap has narrowed. In 1984, it is estimated that 32% of women over 16 smoked cigarettes compared to 36% of men. The corresponding figures for 1974 were 41% and 51%. However, women were twice as likely as men to smoke low tar brands.

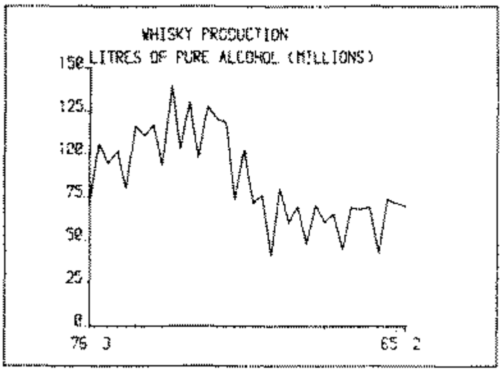
The results of the sample survey also suggest that the average weekly cigarette consumption per smoker has been falling in recent years and for men the average of 115 per week was the lowest ever recorded by the survey. This contrasts with an average of 129 in 1976 and 125 in 1974. The trend for women smokers has been slightly different. Women smokers have reduced their average consumption from a peak of 102 in 1980 to 96 in 1984 but are smoking more each week than they did in 1974 when the weekly average was 94. For both men and women, average weekly consumption in 1984 was highest for the 35-49 age group, the respective figures being 130 for men and 107 for women. Purchases of cigarettes may have further reduced in 1985 as a result of increases in excise duties announced in the last Budget.

In November, it was announced that a £6m investment programme is to be undertaken by Sinclair & Collis, the second largest wholesaler of cigarettes and confectionery in the UK. A new distribution centre at Falkirk, together with depots at Aberdeen and Inverness will serve the whole of Scotland. Currently there are depots in Edinburgh, Perth, Glasgow, Kilmarnock and Dumfries which will be closed over the next six months by which time the new depot is expected to be fully operational. Although the investment will create approximately 40 jobs, the closure of existing depots will lead to the loss of 100 jobs.

In the drinks sector, Highland Distilleries, better known for its Famous Grouse brand of whisky, is to broaden its product base with the addition of a new drink, called Madison, aimed at the 20-30 age group. A combination of spirits and fruit juices, Madison is to go on sale in November, initially in the Central Belt of Scotland.

In November, Scottish & Newcastle were given the go-ahead to renew their bid for Matthew Brown of Blackburn. S & N shelved their bid in April this year after the referral of the planned takeover to the Monopolies Commission. Matthew Brown has fiercely resisted the bid. The Monopolies Commission has concluded that the takeover "may not be expected to operate against the public interest". S & N now will decide whether to renew its bid for Matthew Brown.

WHISKY



The second quarter of 1985 saw overall whisky production maintain the steady course which has been evident for the last two years. At 69.7m litres of pure alcohol, production is virtually identical to the same period last year, with a slight increase in malt whisky production at the expense of grain. For several months a number of companies have been making encouraging noises about increasing capacity utilisation at their distilleries, and it may not be too long before this optimism is reflected in output figures.

Of rather more interest are the export figures for the third quarter. Despite the strength of the pound, overall exports rose to nearly 57m LPA, up an impressive 15.6% on the corresponding period last year. The most encouraging element of these figures is the success of bottled exports. Bottled blends, which account for two-thirds of all whisky exports, rose 20% on the 1984 figure, while bottled malt has continued its remarkable run of success with an increase of 23%. By contrast, bulk malt exports have continued the decline highlighted in the last **Commentary**, down 6.4% on the third quarter last year. However, it remains the case that four times as much exported malt Scotch is bottled in overseas countries as is bottled in its native land.

The main reason for the decline in bulk malt exports has been problems with the Japanese market, where the demand for local whiskies admixed with Scotch has been under severe competition from more traditional Japanese spirits. During his recent visit to that country, George Younger made representations to have the duty and taxes levied on Scotch substantially reduced in an effort to re-stimulate exports. Japan is by no means unique in adopting a discriminatory policy towards Scotch, but the degree of discrimination is severe - Scotch whisky carries more than double the tax and duty of locally-produced whisky, and is taxed 20 times more heavily than other Japanese spirits.

No sooner has the curtain fallen on the takeover of Arthur Bell than an even more contentious bid assumes centre stage. If the Argyll Group does make a bid for the mighty Distillers Company it will be an extremely audacious move. The price to be paid for DCL would be at least £1.5b, and possibly as much as £2b, some three times the size of Argyll's capitalised value. For this reaon Mr James Gulliver is reported to have raised £705m from a consortium of banks in order to pay the cash element of the expected bid (although the Royal Bank was quick to deny involvement in any such consortium), and to have made friendly overtures to GEC which owns 3% of DCL shares. Support from Lord Weinstock would raise Argyll's stake in DCL to over 8%, providing much firmer footing for a takeover bid.

Following a spate of acquisition rumours in September, the Takeover Panel received an assurance from Mr Gulliver that no bid would be forthcoming for a "reasonable period", taken to be three or four months unless the circumstances of the situation changed dramatically. During this hiatus DCL has been as much of a hive of activity as is ever the case in that sedate institution. The first public sign that takeover was being seriously considered came when it was announced that Distillers' structure of management by committee was to be scrapped, with senior management reporting directly to chairman John Connell. This was quickly followed by the appointment of American troubleshooter Bill Spengler as deputy chairman of the group after 10 months in a non-executive capacity, a move which should confirm the trend towards more rapid and imaginative decision-making. There is even talk of acquisition and diversification, taboo subjects since the tragedy of DCL's involvement in pharmaceuticals during the 1960s.

It appears to be generally assumed that any bid by Argyll for DCL would automatically be followed by referral to the Monopolies Commission. However, it is by no means clear on what grounds this would take place. By both word and deed the present Government has made clear its view that competition is the principal guiding light for the Commission, and the impact of a merger between Argyll and DCL in this area would appear to be slight. Distillers' share of the UK whisky market is now below 20%, while Argyll's Amalgamated Distilled Products holds less than 1% - in addition, ADP sold one of its three distilleries to Inverhouse earlier this year. If not competition, what of the regional dimension, following so hard on the acquisition of Bell's? This raises the awkward question of precisely what makes a company Scottish; DCL is generally regarded as Scottish despite having a head office based in London, its hitherto decentralised management structure retaining the Scottish input. Mr Gulliver would no doubt point to his own Caledonian background and that of five of his six executive directors to argue that his group is just as "Scottish" as DCL, and he would perhaps be willing to give assurances about the retention of a management role for Scotland rather as Guinness did during the Arthur Bell takeover battle.

If any investigation is carried out by the Monopolies Commission, the most likely grounds are the sheer size of the proposed bid and the amount of debt which would have to be borne by the bidder. If the acquisition of Distillers goes ahead it will be by far Britain's largest takeover, which could in itself be sufficient to warrant the attention of the Commission. However, this claim to fame could be more than matched by the bid by Elders IXL for Allied-Lyons. This too has a whisky interest via Allied's ownership since 1976 of Wm Teacher.

Talk of billion pound takeovers should not divert attention from a much smaller but nevertheless significant transfer of ownership which took place in October. Scottish and Newcastle Brewers sold its interests in distillers Charles Mackinlay to Invergordon Distillers in a deal worth £17.5m. As well as significant whisky stocks, Invergordon will gain control of a blending and bottling plant in Leith and two malt whisky distilleries, bringing to eight the number of distilleries owned by the English-controlled group. The move allows S & N to concentrate on its traditional brewing interests and gives Invergordon the established brand names which it sought as well as allowing a more satisfactory push into the US market following the continuing disappointment of the "Scots Grey" de-luxe blend. S & N gain a 14.7% stake in Invergordon, which in turn reduces Carlton Industries' shareholding from 76% to 65%. The move is expected to cost 50 jobs.

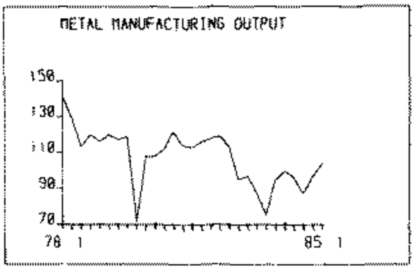
Distilleries and companies have been changing hands with dizzying speed in recent months, and if the DCL takeover does materialise there will be few independent distillers of any importance left in Scotland. Most notable among those which remain is Highland Distilleries, themselves the target of an unsuccessful bid by Hiram Walker five years ago. Highland recently announced improved figures for the year to August. Sales rose 9.8% to £101.3m while pre-tax profit jumped 14.9% to £9.5m. Unfortunately, the whole of the increase in profits disappeared in a greatly increased tax charge, most of it being the result of the abolition of stock relief. In the first nine months of 1985 sales of Highland's "Famous Grouse", the UK's third best selling brand, rose 7% by volume, an impressive performance in the still sluggish home blended market. New fillings and exports rose by 16% and 12% respectively, the former being sufficient to push capacity utilisation at the company's distilleries up to 75%.

Although bottled malt accounts for little more than 2% of overall whisky sales it has been the only area of significant growth for some time, and two companies have launched marketing initiatives to take advantage of this. Macallan-Glenlivet's "Macallan" single malt is being packaged in a new container complete with cork stopper in an effort to consolidate and expand on its position as the fifth largest seling malt whisky in the world. Simultaneously, Seagram announced plans to spend £0.5m promoting "The Glenlivet" before Christmas, with a further £2m being spent over the next two years. This is a significant shift in policy for Seagram. Since Glenlivet Distillers was acquired in 1978 virtually the whole of Seagram's advertising effort has been concentrated o its "Chivas Regal" blend, and this move marks an attempt to seriously challenge the posistion of "Glenmorangie" as the number one bottled malt whisky.

METAL INDUSTRIES

Events in this sector continue to be dominated by the controversy surrounding the closure of the Gartcosh cold reduction plant and the future of the entire Ravenscraig complex. Discussing the logistics of a strip plant closure before the Trade and Industry Committee in 1984, BSC Chairman Sir Robert Haslam suggested that "our view would be that any closure would be phased and hence an immediate closure would be unlikely". The critical issue is the extent to which the Gartcosh closure and the non replacement of coke ovens at Ravenscraig are viewed as Phases I and II of the demise of large scale integrated steelmaking in Scotland.

It should be appreciated that British Steel face a powerful set of external pressures to effect reductions in their cost structure. First, the Department of Trade and Industry requires BSC to put the business on a commercially viable basis in order to participate in future, unspecified privatisation exercises. Secondly, EEC policy is set to change in the New Year. The amended rules are designed to effect the transition to a free market in steel in Europe. The quota system has been relaxed and State aids to steel companies restricted to investment geared to enable rationalisation and closure with direct subsidy towards operating losses eventually prohibited. These policies should afford greater production flexibility and specialisation whilst progressively eliminating some part of the 25 million tonnes of surplus capacity which the EEC argues currently exists. Thus, BSC not only need to break even in future, but require to generate capital for vital cost reducing investment from either internal or external sources. The high cost of borrowing is likely to ensure that every internal avenue is thoroughly explored.



The third pressure on the Corporation emanates from its customers. The British Iron and Steel Consumers Council (BRISCC) have long pressed Government to allow BSC to reduce capacity and transfer the cost savings to them in the form of lower steel costs. In 1984, BSC estimated that closure of an integrated plant would reduce losses by £90m per annum and BRISCC estimate that this could result in a reduction of 10% of average selling prices for strip-mill products. At the moment the Government's insistence that BSC operate five integrated plants, rules out such savings until at least 1988-89. However, the extent to which cost savings would be passed on given protected EEC markets is uncertain and clearly the requirement to generate higher earnings to facilitate both privatisiation and future investment restricts the likelihood that BSC would voluntarily wish to reduce steel prices. However, this pressure is unlikely to abate given the effects of high interest and exchange rates on the competitiveness of UK manufacturing.

These three considerations, allied to the state of trade will dominate the proposed 1988-89 review of the five integrated operations and a key question is the extent to which present events predetermine the results that review. Opinion is irreconcilably split on this issue.

British Steel, the Government and part of the Scottish Conservative Party argue that the Gartcosh closure strengthens the position of the Scottish steel industry prior to the proposed review. The Closure Document suggests that BSC will save £11 million pounds per annum following a complex re-allocation of both the cold reduced (CR) and hot strip order book. Ravenscraig will become the major supplier to the Shotton coated-sheet plant whilst other CR business will be placed at Llanwern and Port Talbot in South Wales allowing savings to accrue from longer production runs at these plants. Secondly, there is a substantial saving in transport costs both from reduced internal handling and from the closer proximity of the four Welsh CR mills to final customers. The bulk of the savings derive, however, from the elimination of the fixed costs associated with the "surplus" Gartcosh Mill and results in a projected 94% utilisation of remaining CR capacity in 1990-91.

Scottish supporters of this cost-reduction argument have stressed that the coated-sheet market is universally recognised as possessing significant growth potential and that this will be re-inforced by the imminent removal of EEC quotas on part of this class of products. In addition, they stress that the ongoing investment plans at Shotton have endowed the plant with facilities comparable to those existing anywhere in the world. They further point out that the apparent social costs will be minimised by BSC-led initiatives which have already been successful in other closure areas such as Cambuslang and Glengarnock.

The remainder of the Scottish Lobby is not impressed by these arguments and contends that the Gartcosh closure is neither good for BSC nor good for Scotland. The closure is seen as part of a more extensive package which effectively weakens Ravenscraig's long-run competitive position relative to the other Welsh strip plants. The Gartcosh closure is linked to BSC's successful takeover of the independent strip producer, Alphasteel. BSC intends to dismantle the rolling facilities at the Newport plant and upgrade the slab casting equipment for eventual installation at Llanwern. The latter development will increase yields and enhance product quality at the Welsh plant. However, it should be recognised that the installation of continuous casting at Llanwern facilitates the introduction of further investment which would enable continuously slabs to completely bypass the cooling and reheating stage and proceed directly to the hot strip mill.

Current Japanese experience with this direct rolling technolgy suggests 85% savings in energy costs and marginal gains in production management and yield. The BSC board have been considering adopting these procedures at Llanwern via the Project Metal proposals. Full implementation requires investment in equipment to enhance the quality of the liquid steel. It is possible that the benefits from Project Metal to BSC would be enhanced if the Scottish works advanced steelmaking equipment could be transferred to Llanwern. In operating conditions where investment capital will be both scarce and expensive to BSC such an eventuality should not be discounted lightly. Thus the advent of concast at Llanwern presents a complex threat to Ravenscraig's long-term future. Neither Port Talbot nor Ravenscraig could adopt direct rolling techniques without significant and costly upheaval. However, the less attractive option of direct charging of hot slabs to reheating furnaces affords energy savings and this practice is possible at both plants. Port Talbot has been re-designed to maximise the possibility of adopting this practice whilst facilities at Ravenscraig allow about one-fifth of slabs to be directly charged. No strip mill will remain competitive without one or other of these energy-saving facilities in wide-scale use. Given the superior layout of Llanwern and the recent upgrading of Port Talbot, the Alphasteel deal places the increased vulnerability of Ravenscraig in sharp focus.

The Scottish Lobby's attention has been fixed on undermining the BSC case for Gartcosh closure in several ways. It has been pointed out by the workforce and others that the underlying strategy is financially sensitive to departures from its assumptions. Thus, ex post, BSC may well not realise their projected £11m savings.

The workforce dispute the savings at Ravenscraig deriving from the Gartcosh closure. BSC claim job losses of 160 with consequent savings of £1.6m whilst the unions argue that it is only possible to identify 40 job losses identifiable as being directly associated with closure of Gartcosh. Whilst it is possible that BSC may pay off 160 men, only those directly attributable to the closure should be included in the savings. The increase in costs resulting from increased production at the remaining CR plants are argued to be seriously underestimated given the high capacity utilisation implied.

It is asserted by BSC that the re-allocation of the Gartcosh load will result in a loss of 2,500 tonnes of UK sales. The new configuration will result in a reduction in BSC's ability to supply higher quality continuously cast non-coated C-R products until Llanwern's caster is installed in 1988. This is because of significant diversion of Scottish hot strip into coated products at Shotton.

Further engineering work is planned at both Welsh Plants with the risk of disruption to production although the success of BSC in containing such costs during Port Talbot's modernisation should be clearly stated. However, given the universal recognition that the customers for non-coated sheet demand exacting quality requirements and the defection of such a low proportion of UK customers would be a considerable marketing achievement by the Corporation. Whilst BSC could take or leave many of their marginally profitable export orders, they view export markets as expanding over the period to 1990-91. However, it is not clear how BSC can compete in the short-run in more lucrative EEC markets with a reduced supply of concast product. Thus BSC could easily lose more than 2,500 tonnes of UK business and lose part of its inadequate European market share, a likelihood not accommodated in BSC's projected savings.

The reduced supply of concast non-coated C-R products could cause UK and EEC customers to source from other suppliers leading to a reduction in the benefits assumed to accrue in Wales owing to higher output but possibly leading to offsetting cost savings. Without further information it is not possible to fully evaluate either the savings figures or the sensitivity to deviations from the implied assumptions. However, it does appear to contain risks which might be minimised by delaying the closure of Gartcosh until Llanwern is upgraded. This would effectively mean that the present proposals could be assessed in the review.

Government spokesmen have emphasised that they would reconsider the Gartcosh closure if it could be demonstrated that it weakened the medium-term viability of the Ravenscraig complex. A relevant conideration here is whether Shotton is a "better" customer than Gartcosh. Gartcosh is administratively part of the Ravenscraig complex whilst Shotton is not. The loss of a finishing mill with its own final markets could lead to greater inflexibility and consequent loss of synergy in production and sales, thus penalising the remaining operation. The workforce refer to a "cascade effect" whereby production which falls short of ordered quality is usually diverted to other orders or marketed by the saleforces. In the absence of a "sympathetic" cold mill, Ravenscraig will require to go for consistently higher grades in order to hit a more well-defined order load. This will impose higher costs than in the present arrangement.

The other aspect of recent developments is the non-investment in coke ovens which will increasingly require the works to purchase coke on the open market. BSC forecast that the corporation will experience a 20% coke shortage in 1990-91 under the present policy. Coke oven capacity is not easy to identify but it can be noted that many major steel companies are finding themselves unable to finance replacement of present plant. The EEC predicts a broad balance of coke supply and demand in 1990 but US projections indicate a strong likelihood of excess demand in the States. Coke will become increasingly scarce and acute shortages and high market prices are expected in many quarters. Given that Ravenscraig will require to find external coke sources it is believed by the workforce that this will increase costs and present the plant in an extremely bad light in any review procedure. It is difficult to disagree with this conclusion.

The BSC strategy appears to be to use Ravenscraig's high quality strip to expand market share in the lucrative coated sheet section. The Ravenscraig workforce have argued that this is not without risks both to BSC as a whole and to Ravenscraig in particular. If the strip market does not develop as BSC expect, Ravenscraig is more than ever the marginal plant. The Alphasteel package demonstrates graphically the BSC view that South Wales is the preferred location for making steel. Llanwern has been identified by the Corporation as the best site for the installation of cost-reducing investment. Ravenscraig's relative unattractiveness is made explicit by these proposals.

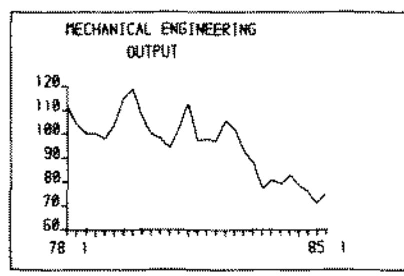
The central pre-occupation of any analysis of the Scottish steel industry is the forthcoming review. It should be emphasised that the prime objective of this exercise is to decide whether the corporation continues to allocate capital across five integrated sites. In this respect the coke-oven policy signals three things. First, it raises the strong possibility that Ravenscraig's variable costs will be higher than those at plants with full coke-making facilities. Second, it underlines that BSC is seriously considering a 4-plant configuration and will not make costly investment decisions until future steel-making locations are identified. Thirdly, it demonstrates that BSC is hedging its bets with respect to the imminent prospect of commercially viable coal-based direct reduction as a substitute for iron-making in blast furnaces. None of these implications is comforting for the Scottish steel industry.

Concern over the General Steel Division's 1.2 million tonnes per annum hot coil mill at Lackenby is warranted. In principle, BSC have the option of supplying strip products from their four English sites. In this situation, it is necessary but not sufficient to concentrate solely on the prospects for the three strip-mills. The Teeside complex makes products used, to a large extent, in heavy and civil engineering projects. Global high interest rates and policies of curtailing public sector investment continue to take their toll on these markets, although any Channel Tunnel scheme would boost demand for a period. The key point is that, even if strip demand holds up, Ravenscraig could close because BSC calculate that it is in the best interests of the Corporation to diversify at Teeside and increase capacity utilisation at that site. Until the investment intentions at Llanwern become clearer, we should not discount the attraction of implementing direct rolling cheaply through cannibalising the Ravenscraig complex.

It is highly unlikely that BSC view five integrated plants as consistent with a free market in Europe or the requirements of privatisation. The repeated claims of the present Chief Executive and future Chairman, Mr Bob Scholey, that BSC has one strip mill too many amounts to the same thing. Unfortunately, there is no evidence that Mr Scholey has altered his view.

In the short-run it would be helpful if the Government were to take cognisance of the hidden subsidies which exist on the Continent with respect to energy, transport, labour and coking coal. Whilst the UK may in the future face free competition in Europe, it is hardly fair competition. If such argument is categorised by Government as "special pleading" then the fate of an integrated plant is sealed. BSC will eventually chose to combat subsidised competition by concentrating production at four sites in order to secure operating economies. It is a legitimate fear that the Government will not wish to tackle this especially as reduced energy costs for industry may run counter to the objective of securing higher revenue from the sale of utilities with guaranteed monopoly rents. The Scottish Lobby should have little doubt that the first casualty will be Ravenscraig.

MECHANICAL ENGINEERING



Following a slump in production in the final quarter of 1984, Scotland's mechanical engineering finally began to pick up in the first quarter of 1985. Even so, the index of production for the first quarter of 1985 was still well down on the same period in 1984.

Scotland's experience is in notable contrast to the rest of Britain. The UK index of production for mechanical engineering has been rising slowly but steadily since the beginning of 1984. A considerable part of this improvement in the UK performance appears to be explained by a 14% rise in the volume of export sales between the second quarters of 1984 and 1985. New export orders won by UK firms fell back in the first quarter of 1985, but made a strong recovery in the second quarter of the year. Scotland's mechanical engineering firms are apparently not having as much success in export sales as their counterparts elsewhere in Britain. In the second quarter of 1985 only 40% of mechanical engineering firms responding to the Scottish Business Survey reported export sales up, while 30% reported export sales down. At that time, however, Scottish firms seemed reasonably optimistic about the future export prospects. 40% of respondents expected both export sales and new orders to rise over the next three months, and only 10% expected a fall.

According to the most recent Scottish Business Survey, this optimism has not fed through to new orders. For the quarter ended September 1985 more firms had seen a fall in both export sales and new orders than enjoyed a rise. Scotland's weaker export performance seems to be due to its small representation in those mechanical engineering sectors which have been most successful in capturing new export orders. Agricultural machinery (including tractors), machine tools, construction equipment and valves appear to have been doing best. These are all sectors in which Scotland's industry has proportionately less production than elsewhere in Britain.

Machine tools is a notable example of a sector of the UK industry which has made a strong recovery over the last year. This sector had been crushed by the surge in imports of computer controlled machining centres from Japan. Japanese machines took 1% of the UK market in 1977 and 60% by the end of 1983. Since then Japanese imports have been pushed back as UK firms have caught up with Japanese technology, and UK firms' export sales also leapt up in the second half of 1984.

Scotland's machine tool industry has taken a battering over recent years. Employment halved between 1978 and 1983, and by 1983 accounted for only 4% of employment in Scotland's mechanical engineering sector, compared with 10% throughout the UK. This has left Scotland in a very weak position to take advantage of the recent recovery in both exports and import substitution.

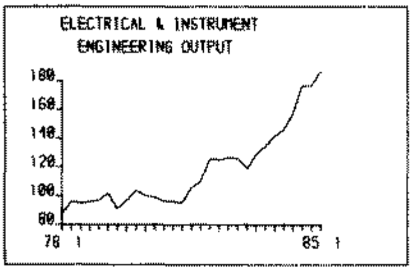
The Scottish industry has, instead, become increasingly orientated toward the heavy fabrication sector, particularly for the offshore industry. Compared with most mechanical engineering sectors this has a very low rate of export sales, for obvious reasons of immobility of the final product. This sector has missed out on the wave of export sales, and has also suffered from a decline in offshore orders. Much of the slump in Scotland's mechanical engineering production can be explained by a fall in offshore work at the end of 1984. Between June and December 1984 mechanical engineering employment wholly associated with North Sea Oil fell by 3,000 to 12,470. By June of this year employment had returned to 13,427, and this must be a major factor in the recovery in the Scottish index of production in the first quarter of 1985. Production in this area is, however, still well down on June of last year.

The UK demand for mechanical engineering products rose steadily during 1984 and into the beginning of 1985. This mirrored the general recovery in investment expenditure. The second quarter of 1985 has witnessed a sharp reversal in this trend. Recent Government statistics report that the volume of UK domestic sales fell by 3.5% between the first and second quarters of 1985. New domestic orders were down by a massive 15% over the same period. The results of the recent Scottish Business Survey confirm that new orders from the rest of the UK fell over the last three months, and only 16% reported an increase.

The slide in home sales and the failure of export sales to match expectations has, not surprisingly, reversed the improvement in Scotland's mechanical engineering employment. In June of this year 46% of respondents to the Business Survey reported that employment was up, and only 24% had shed jobs in the previous 3 months. By September only 26% had managed to increase employment, while 46% had laid off workers. Capacity utilisation remained at 28%, the lowest rate for any manufacturing sector in Scotland.

ELECTRICAL AND INSTRUMENT ENGINEERING

The index of industrial production for Scotland for electrical and instrument engineering continued to show strong growth in the first quarter of 1985. It rose by 10 points to 187 (a 6% increase on the previous quarter) and was far in advance of the corresponding UK index, which stood at 131 (representing a 1% increase over the previous quarter). The next quarter's figures will be of interest as they should start to reflect the worrying recession in the semi-conductor industry which accounts for about 20% of the Scottish electronics industry in employment terms.



In the October Scottish Business Survey, the optimism about new orders reported in the July survey ie a net 43% expected increases in the next three months, failed to be justified. Only a net 3% of firms actually experienced increases in new orders, with export orders suffering worst of all - 28% of respondents suffered a decrease whereas only 22% experienced a rise. Nevertheless, optimism remains high for the next three months as a net 23% of respondents expect an increase in the total volume of new orders. Demand is expected to come fairly evenly from Scotland, the rest of the UK and export markets. The news is not so good with regard to employment trends. Whereas a net 22% of respondents actually experienced an increase in employment over the last three months, a net 12% expect a fall in employment over the next three. This is not good news from one of the industries seen as being the answer to Scotland's unemployment problems. The news on employment trends looks especially bad for female workers over the next quarter. Reported capacity utilisation is down to 66% in the industry, from 70% in the previous quarter, and is below the All Manufacturing figure of 69% - again a surprising, and somewhat disturbing, result for a 'boom' industry.

The problems, however, are mainly confined to the one sector mentioned earlier - semiconductors. As has been extensively reported in previous **Commentaries** the semiconductor industry has been experiencing, since winter 1984, the most severe recession in its history. The first signs of this in US companies have been a cut back in jobs which began in January this year. It is only since the summer that the Scottish end of the industry appears to have become embroiled in these difficulties. National Semiconductor at Greenock have now shed 460 workers and have employed various techniques eg enforced weekly shutdowns, to impose cuts in production and costs. Motorola at East Kilbride have had to impose a one week holiday on workers and have introduced a "voluntary severance programme". Even General Instruments, which produces up-market, semi-custom-built chips, has experienced difficulties.

However, there seems to be some light at the end of the tunnel. The leading US indicator, the book-to-bill ratio, moved up in September thus indicating an improvement in business conditions. This may be an early sign that recovery has begun but it is perhaps too soon for optimism. If forecasts from the Semiconductor Industry Association (a US body) were to be believed, semiconductor sales seem set for rapid growth next year. A figure of 18% growth worldwide is predicted (although European markets are forecast to grow by only 7.8% and it is these that the Scottish firms service) amounting to sales worth $25.5bn, only £0.5bn below the record figure for 1984. However, most industry experts believe these figures to be over-optimistic and, indeed, the past performance of the SIA in forecasting leaves a lot to be desired: for example, for 1985 it predicted 22% growth in the semiconductor industry whereas it actually fell by 17%! The message for the Scottish industry must be that of "wait and see" because there is little certainty about market movements over the next 6 months.

Forecasts for the home computer market (over-ordering in which was a prime cause of the slump in the semiconductor industry) are not good. Christmas sales are expected to be about 300,000 down on last year, at one million, and market research analysts have reported a survey showing a 60% fall in sales by 1989. However, this is balanced somewhat by a predicted boom in computer software (an area where Scotland is particularly weak), video cameras, colour TVs and compact discs.

More depressing news came from Hewlett-Packard where a 5% wage cut has been imposed through reduced working hours and from Prestwick Holdings which has experienced depressed trading since the summer after record profit figures for the year to 31 July. Both of these firms view their setbacks as being merely temporary.

With all this gloom about are stories that the bubble of the Scottish electronics boom has burst true? The answer would seem to be clearly no - at least not given the evidence so far. In the last three months announcements about new investments and job creation have come from BEPI circuits of Galashiels, MTL Microtesting in Livingston, Memex Information Systems Ltd and Victor Corporation at East Kilbride, GRI Electronics in Perth, Telex Computer Products at Irvine, Samtec Incorporated in Cumbernauld, IBM at Greenock and Flexible Technology at Rothesay. All-in-all over 900 new jobs (**but spread over five years**) seem likely to be created from these announcements alone. The two largest moves involve the establishment of a Victor Corporation factory in East Kilbride which will create 200 jobs over the next three years and involve an investment of £1.5m and a multi-million pound expansion project at Greenock's IBM factory which may bring up to 600 new jobs to this hard-pressed area over the next 5 years.

Most of these inward investments have been enticed to Scotland by the SDA's Locate in Scotland bureau and it is to be hoped that the SDA's latest move in bringing high technology health care jobs to Scotland is equally successful. A "concordat" was signed in Minnesota, the home of the US health care industry, in order to assist the transition of US companies into the European market-place with Scotland as their base.

One welcome piece of news which will increase the supply of skilled labour for the electronics and health care industries was announced in October. Edinburgh, Glasgow and Strathclyde universities are all to share in the second phase (worth £28.3m) of the Government's £43m programme to increase the number of graduates in electronic engineering and computers. Twenty-seven colleges and universities throughout Britain will share in this round.

Finally, the fourth large-scale industrial site to be designated a high-technology development by the SDA is to be set up at Glenbervie near Falkirk. This 70-acre site will join the previous developments at Springfield, West Lothian, Erskine and Carrickstone, Cumbernauld.

TRANSPORT EQUIPMENT

There has been very little good news in this sector during the last quarter. Only British Aerospace at Prestwick has been able to bring a note of optimism. The company has announced further orders for their highly successful Jetstream 31 executive aircraft. Sunbird Airlines of North Carolina have ordered 5 aircraft, and the Dutch operator Netherlines has ordered 2. The past year has already seen the workforce grow by more than 200 to over 2,000. British Aerospace now have 94 Jetstreams on order and there are plans to increase production next year from 36 to 48 aircraft.

British Aerospace is apparently also one of the companies interested in taking over the management of Rosyth Naval Dockyard when it is privatised. Babcock Power are interested as well. The Weir Group and Balfour Beatty have announced that they also plan to submit a bid for the management of the yard.

The unions have expressed their opposition to the privatisation of the yard's management from the start. They argue that private yards will perform poorly in order to reduce costs. A recent incident has has been used in support of their argument. The warship Redpole returned from a refit at a private yard in Lowestoft. The unions claim that the warship had 29 defects which management tried to conceal by allocating naval rather than dockyard personnel to rectify the defects. Workers at the dockyard blacked the Redpole and management retaliated by sending home 45 engineers who had refused to work on the warship. The dispute escalated with the 6,000 workforce engaging in a series of hourly strikes in protest at the management's action.

The argument has been temporarily resolved, and the dockyard workers have corrected the one defect which they were asked to deal with, namely changing the propellers. However, the Redpole is expected to return to Rosyth following a series of trials, and further corrections may then be necessary.

The privatisation of the Hall Russell shipyard also continues to face severe problems. This was another yard that British Aerospace were interested in until it became clear that the Ministry of Defence had no intention of offering the yard new orders for offshore patrol vessels in the near future.

Hall Russell has only recently been placed under the warship division of British Shipbuilers, but under this division the yard is prevented from tendering for merchant ships. With the prospect of Ministry of Defence orders now closed, the yard has little hope of winning orders while constrained within the warship division. British Shipbuilders have announced that unless a buyer can be found by next March the yard will be closed.

The Hall Russell yard is in a prime position in Aberdeen Harbour and surrounded by oil company supply bases. Understandably, potential bidders for Hall Russell (of which only one consortium remains interested) have offered a low price when future orders for the yard remain so uncertain. As things stand, British Shipbuilders could probably earn more by selling the site to offshore operators. The central question remains, however, as to why British Shipbuilders are reducing the chances of Hall Russel winning new orders by stopping them from bidding in the merchant sector.

Another shipyard in trouble is Scott Lithgow at Greenock. In September the owners, Trafalgar House Offshore, told unions that they wanted to make 1,000 workers, about half the labour force, redundant. The redundancies are necessary because Trafalgar House Offshore have failed to win any new orders for the yard. Scott Lithgow have had considerable difficulty in converting from a merchant ship to offshore yard. Their only major order, a semi-submersible drilling rig for Britoil, is more than 2 years behind schedule. Trafalgar House hoped to win new orders for semi-submersibles, but recent offshore orders have mostly been for fixed structures and have been awarded to fabrication yards experienced in this area.

Trafalgar House still hopes to win an order for one of three conventional submarines to be built for the Royal Navy. The contracts are expected to be awarded at the end of this year. Even if the yard wins an order for the Upholder submarine, this would not be sufficient to prevent redundancies. The present workforce could only be maintained if new offshore orders are secured. The Secretary of State for Scotland has recently announced his intention to urge the Ministry of Defence to place an order for the Upholder submarine with Scott Lithgow. He also intends to encourage oil companies to consider placing a contract with the Greenock yard.

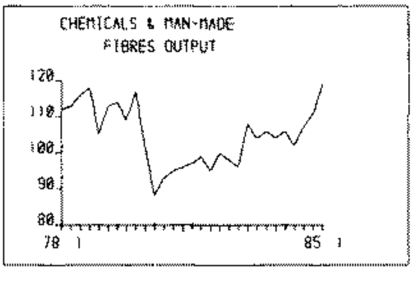
Scotland's few remaining vehicle manufacturers are also facing problems. BL's plant at Bathgate is already expecting closure next year unless a buyer can be found. Now one of the companies which had expressed interest in buying the Bathgate plant, tractor manufacturers Marshalls, has gone into receivership. The company is an important customer for the Bathgate plant which makes engines for the Marshall's tractors. It now looks as if the planned closure of the BL plant may have to be brought forward, unless the receiver can find a buyer for Marshall's.

The specialist car manufacurers AC Scotland, based at Hillington, Glasgow has been a short-lived ray of light in Scotland's vehicle sector. AC Scotland, which was founded 18 months ago, had expanded to a workforce of more than 30.

The company has recently been forced to call in the receiver because of debts of £300,000, and has laid-off its entire workforce.

The management believe that the company still has great potential. They claim that they have orders over the next 3 years for 550 of their AC Ecosse sports cars, and that they were planning to expand the workforce to 120 in the near future. The problem facing the company is that of raising sufficient capital to get the operation off the ground. Apparently, the management had been expecting to receive money from the EEC development fund, but this money has not been forthcoming. It seems that the SDA was not willing to support the company's applications for EEC funding, and is not willing to inject capital into the project. The SDA are not prepared to comment on why they are unwilling to support AC Scotland, apart from expressing reservations about the viability of the project.

CHEMICALS AND MAN-MADE FIBRES



Output of chemicals and man-made fibres in Scotland rose sharply in the first quarter of 1985 with an 8% increase over the final quarter of 1984. The index of industrial production at 119 is now 13% higher than in the first quarter of 1984 and at its highest level since the first quarter of 1977. The volume of output in the UK chemicals industry in the first quarter rose by 3% compared with the preceding quarter and was 7% higher than in the first quarter of 1984. Provisional figures indicate that growth has flattened out over the four months to July.

Particularly impressive gains were recorded in the first quarter for inorganic chemicals, synthetic resins and plastics materials and pesticides. Although some fall back appears to have occurred in some sectors during the second quarter ,output remains well above comparable 1984 levels in the great majority of cases.

The July 1985 CBI Industrial Survey indicated that chemical companies are optimistic about trends in domestic and export orders and output in the third quarter. This particularly applied to the pharmaceuticals, consumer chemicals and agricultural chemicals sectors. Prospects for the latter part of the year are not so encouraging - the slow-down of US economic growth and some loss of UK competitiveness resulting from the depreciation of the dollar will dampen export opportunities.

The volume of UK chemical capital expenditure rose markedly by 10% in the first quarter compared to the fourth quarter 1984 and was up by over 23% compared with the same quarter a year earlier. The surge in chemical industry spending appears to be due to conversion and modernisation of some plants. Some projects had been brought forward to take advantage of high capital allowances.

BP Chemicals have announced that they are to cease production of cumene and phenol at their Grangemouth Works with the loss of 150 jobs. The closure is scheduled for November and will be followed by a further cut in the payroll of some 150 to achieve economies elsewhere at the site.

Both the cumene and phenol facilities are old dating from 1970. The phenol plant with a capacity of 45,000 tonnes per annum was built to pre-oil shock energy specifications and is too small to compete with the much bigger plants of rivals. Furthermore, the phenol market was, according to BP, a declining one, with less and less phenol being used in areas such as nylon production and insectides.

The company maintains that the plants have together made losses of £25m since 1980 and the plants also suffer from being sited too far apart. Rival companies syphon energy generated during cumene production into phenol manufacture by interlinking the plants.

The closure plans have been strongly criticised in a report prepared by the Centre for Alternative Industrial and Technological Systems at the request of shop stewards at Grangemouth. This reports states that arguments put forward by the company are 'misleading, inappropriate and inadequate'. Contrary to the company's statement that the phenol market was stagnant, it is contended that demand for phenol in 1984 had grown from 80,000 tonnes to just under 105,000 tonnes - an increase of some 30%. The report also states that in closing the cumene/phenol plants BP will give up a secure market in the UK and will have to ship in phenol from abroad to supply the company's own operations in Wales. A consequence of the closures would be to turn the UK from an exporter of phenol to a net importer.

ICI is to invest £5m converting the power plant at its Dumfries Works from oil to coal. The conversion will incorporate the most modern second generation fluid bed technology and particular attention has been given to environmental considerations. The new boiler is expected to consume up to 35,000 tonnes per annum of low grade coal. In the past 2 years ICI has invested £62m at the plant to expand Melinix polyester film production.

Scottish Agricultural Industries is on target for a spring 1986 start-up of a new nitric acid plant at its fertiliser complex in Leith. The new plant represents a £12m investment in, the company claims, the only major fertiliser producing units left in Scotland.

Upjohn the US pharmaceutical company may spend £26m on a research plant in Scotland creating 250 jobs. Rival candidate sites are in Belgium and West Germany. A key to the location of the establishment will be the attitude of the government of the country selected to future profitability of pharmaceutical companies. Upjohn is aware that in Britain recent cuts in return to pharmaceutical companies following the introduction of a limited list of drugs available on prescription has resulted in several foreign companies cancelling UK plans within the past year. It is understood that financial assistance for the project may be available from the SDA.

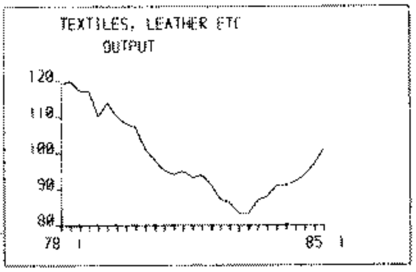
Weak demands in chemicals over the summer have depressed ICI third quarter profits from £268m to £182m - a fall of 27%.

The main problems encountered by ICI were that their UK fertiliser business suffered from unusually low demand and that profit margins on bulk chemicals in the Western European market were squeezed. However, pharmaceuticals did very well, particularly in the US where sales in September were described as exceptional. Agro chemicals which had an exceptionally strong second quarter were weaker in the third. Some of this was associated with seasonal factors, but some part was also attributable to abnormally high sales in the second quarter. In 1986, financial analysts expect ICI profits from fertiliser and agro chemicals to recover and continued progress in pharmaceuticals.

TEXTILES

Overall UK production of clothing and textiles remained static during the first half of 1985 following a boom in production in 1984. UK textile output continued to rise into 1985, while clothing production slipped back. The difference between the performance of clothing and textile manufacturers was apparently due to a decline in clothing exports. UK clothing exports usually fall off in the first quarter of the year, but the drop in exports was exceptionally severe at the beginning of 1985. At the same time, however, UK textile manufacturers managed a modest rise in exports.

Unlike the UK index, the index of production for Scotland's clothing and textile industry continued to rise into the first quarter of 1985. The difference in performance may be explained by the fact that a higher proportion of the Scottish industry is concentrated in wool textiles and knitwear. These are sectors which have continued to enjoy good export sales.



It has been observed in previous **Commentaries** that the geographical coverage of the Scottish Business Survey biases it towards clothing manufacturers. The results of the recent Survey certainly conform to what we would expect to be happening in the clothing sector. The results suggest that the boom in clothing exports is now coming to an end. Only 38% of respondents reported that the volume of new export orders were up over the previous 3 months. In January of this year the corresponding figure was 68%. This trend is just as expected given that sterling has been appreciating against other currencies since early in 1985.

It is, however, notable that respondents to the September Survey are very optimistic about future export sales. 64% of the firms expect export sales to rise over the next 3 months, and only 3% expect export sales to fall. These results suggest that clothing manufacturers react very rapidly to shifts in sterling's value. The pound has recently fallen back to its March level against most currencies other than the US dollar.

The quality Borders knitwear manufacturers are apparently slower to react to exchange rate variations. Unlike many clothing manufacturers, the manufacturers who work in very expensive yarns, notably cashmere, always produce to order and the time between orders and deliveries is often about 6 months. The Hawick Knitwear Manufacturers' Association confirm that their members have not been affected by any slow down in export sales during the first half of this year, and that future prospects remain promising.

The continuing prosperity of the Borders Knitwear manufacturers has, for the second year running, fuelled workers' demands for higher wages. The knitwear workers, represted by the GMBATU asked for a 12% pay rise, while the Hawick Knitwear Manufacturers' Association, representing 16 employers in the area, offered 7.5%. Following a ballot of members in which 73% rejected the employers' offer, the GMBATU instituted an overtime ban and restrictions on outworking.

At the beginning of October ACAS was brought into the negotiations and both employers and unions agreed to go to arbitration. As a result the industrial action was called off.

Carpets

Carpet manufacture in Scotland has suffered a massive contraction over recent years. Employment in this sector was over 9,000 in 1977. It is now under 2,000. The major factor in the decline in both the Scottish and British carpet industry was penetration of the market by cheaper carpets from Belgium and the US.

The demand for carpets is closely tied to the rate of new house building. When UK house construction slumped at the beginning of the 1980s the carpet industry was squeezed even further.

The Scottish industry underwent a substantial reorganisation over this period. Stoddard Holdings acquired a number of other Scottish manufacturers, and merged with British Carpets in 1981. This left Stoddards as the only carpet manufacturer of any size in Scotland. By 1982 the effect of both Stoddards' acquisitions as well as the decline in the market had left Stoddards with accumulated debts of £7 million. At this point the Bank of Scotland refused to continue financing Stoddards' overdraft. The SDA provided a rescue package in which the Agency underwrote a £2.6m rights issue by the company.

Recent results indicate that the much reduced Scottish carpet industry is finally moving into a more secure position. The Scottish industry, along with other British manufacturers, has been boosted by both the recovery since 1982 in private house construction and the recent decline in sterling, which has helped them compete against overseas manufacturers. UK carpet exports were 32% higher in the first quarter of 1985 than in the first quarter of 1984. Carpet imports for the same period rose by only 7%.

Both Stoddards and the second largest of Scotland's carpet manufacturers, BMK of Kilmarnock, have recently reported more optimistic results. Although Stoddards are still making a loss after tax, their 3 year recovery programme, initiated in 1983, is still on course. At their recent AGM the Chairman announced that new orders arewell up on last year. His optimism was reinforced a week later when the SDA and the Bank of Scotland succeeded in selling another block of Stoddards' stock that they had acquired in 1982. The Scottish American Investment Company was the purchaser. The SDA now holds only 7.6% of the stock issued 3 years ago.

BMK, previously known as Blackwood Morton Kilmarnock, went into receivership at the end of 1981. The company was bought by Mr John Logue and reopened in 1982 with a much smaller workforce. Since then BMK has doubled its turnover and made a profit of £800,000 in the last financial year. The company has expanded its workforce to 440.

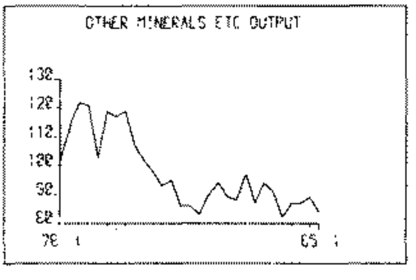
The multi-fibre arrangement

The EEC has, as expected, come down in favour of a renewal of the MFA, but on more liberal lines than the existing agreement. At the same time developing countries who were demanding an end to the MFA have moderated their approach. They are willing to accept renewal on the condition that import restrictions are reduced. There seems to be general agreement that this should be thefinal MFA, although it is still not clear how long it will be expected to last. The final decision will be made next year.

Meanwhile, at the beginning of October the US Senate passed the Jenkins Bill which aims to drastically reduce US imports of textiles and clothing. The US has faced a massive balance of payments deficit over the last year, and as a result there has been strong pressure from industry for increased protection against imports. The Jenkins Bill only won 53 votes, however, and 67 votes are required to override a presidential veto. President Reagan vetoed a Bill designed to protect the US shoe industry, and it is widely predicted that he will do the same to the Jenkins Bill.

OTHER MINERALS AND MINERAL PRODUCTS

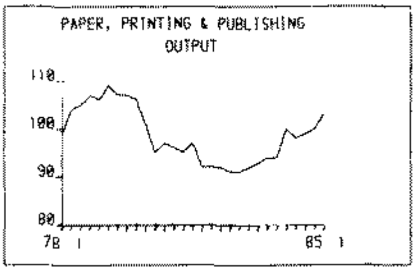
The level of production in the first quarter of 1985 fell by around 5% to an index level of 84, according to the latest official data on this sector. This fall is one of the largest recorded in manufacturing during that period, and is relatively worse than the outcome for the UK as a whole, where production fell by about 3%. Taking the four quarters to March 1985 against the preceding four quarters, output levels in the sector in Scotland were down by about 2%, in contrast to a slight increase in the output levels of the UK as a whole.



Information from the latest volume of Housing and Construction Statistics shows that deliveries of bricks from works situated in Scotland totalled 226 million in 1984. Although this was a slight increase, of around 2%, over the previous year, the general trend in these deliveries over the last decade has been strongly downward. Since 1975 brick deliveries from Scotland have contracted by more than half, a decline of greater proportions than has occurred in England or Wales.

PAPER, PRINTING AND PUBLISHING

Output in the printing, paper and publishing industries in Scotland rose by 3% in the first quarter of 1985 from 100 to 103, (1980 = 100), its highest level for five years. It also rose by 5% in the latest four quarters compared with the preceding year. On the evidence of the index of production, the Scottish sector's performance appears to be relatively better than that of the UK as a whole where the index at 96 was down 1% on the previous quarter, although 3% higher in the four quarters to the end of March 1985 compared with the previous year.



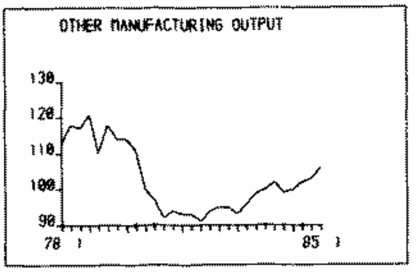
More recent information from the Scottish Business Survey indicates that over the summer, respondents have become less optimistic about business prospects. In the October Survey, a net balance of 21% of respondents were less optimistic about the general business situation than they were three months previously. The export sector, in particular, clearly provides poor prospects for sales and orders in the face of continuing strength of the pound. However, the paper, printing and publishing sector has a relatively high percentage rate of capacity utilisation and, not surprisingly, plant capacity is seen as the second most critical factor, after orders/sales, likely to limit output over the next few months. Most respondents' investment intentions have remained unchanged over the last few months, but among those who have recently authorised investment, the principal reasons were to increase efficiency and to introduce new technology.

Low and Bonar, the Dundee-based packaging, textiles and electronics group has combined with the Scottish Development Agency to launch a new company, Innovation Scotland, which will seek to develop into marketable products, some of the fruits of academic research. The new venture, which also has the support of the Royal Bank of Scotland and Dundee and St Andrews Universities, fits in with Low and Bonar's strategy of concentrating its efforts in three areas - packaging and plastics; high performance textiles; and selected electrical and electronic products. Innovation Scotland's first client is in fact Low and Bonar who have given the company a three year contract to find new products for them in these areas of business. On the takeover front, Low and Bonar launched a bid in early November for Cole Group, the Surrey-based plastics and electronics company in which Low and Bonar currently hold a 24.76% stake. However, Low and Bonar's initial offer has been rejected. Low and Bonar meanwhile have completed a takeover deal with Don Brothers of Forfar for Don & Low, the speciality packaging group based at Arbroath.

Elsewhere in the industry, a £3.5m investment programme was announced by the Carrongrove Papermill at Denny which will help secure the future of its workforce of 140. Following investment of over £2m in the last 18 months, DRG Transcript which produces carbonless copy paper is to invest a further £5.8m in its plant at Markinch, Fife, thus safeguarding almost 300 jobs.

OTHER MANUFACTURING

The index of industrial production for other manufacturing industries in Scotland rose for the fifth consecutive quarter to stand at 106 (1980 = 100) in the first quarter of 1985, its highest level since the beginning of 1980. This trend contrasts sharply with this sector's output performance in the UK as a whole where production fell by 3% in the first quarter of this year to 95, its lowest level since mid-1983.



Now boosting output in this sector in Scotland is Highland Forest Products, located at Dalcross near Inverness. Production of the company's oriented strand board is now fully underway with a yearly target of some 75,000 cubic metres of board.

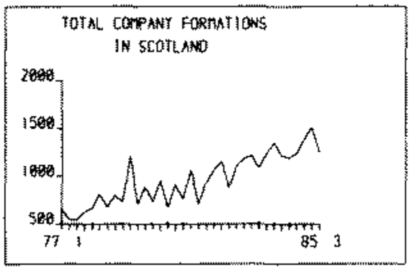
Brownlee, the Glasgow-based timber and builders' merchants have recently signed a deal with A/S Fibofabrikken, a major Norwegian plastic laminate manufacturer, making Brownlee the sole distributor in Scotland of the Fibo range of products. Of particular interest to Brownlee is the Norwegian company's bathroom panelling which would represent a logical addition to the range of products Brownlee currently supply to the building trade as well as the DIY market. Brownlee hope that sales of this one product alone will generate £100,000 in the first year.

Both the SDA and the HIDB have been involved in negotiations with the Finnish-based forest products company Kaukas to locate a £100m paper and pulp mill in Scotland. Several locations have already been suggested for the mill and the company is expected to make a decision by the end of the year. Up to 300 jobs could be created if the scheme goes ahead.

COMPANY FORMATIONS AND DISSOLUTIONS

The desire to form new companies contines unabated in Scotland. Although company formations in the third quarter fell from the previous quarter's all-time high, the figure of 1,240 new starts represents the highest level ever recorded for this three month period. Despite fluctuations, the strong upward trend which began in 1981 shows no sign of diminishing.

In marked contrast to formations, company dissolutions maintain an erratic course. At 327, third quarter dissolutions are less than half the number reported three months ago, and this is the lowest third quarter figure recorded since 1980. While formations may well give some indication of the level of entrepreneurial activity in Scotland, previous **Commentaries** have highlighted the problems inherent in reading anything of significance into the raw data for dissolutions. What is really required is some indication of business failures, excluding those dormant companies which the Companies Registration office chooses to dissolve unilaterally. With this in mind, it is interesting to note the figures compiled by Dun & Bradstreet which indicate that business failures in Scotland fell by 35% in the first nine months of 1985 compared with the corresponding period in the previous year.



There are serious doubts about the comprehensiveness of Dun & Bradstreet's coverage in Scotland, given the very marked disparity between their figures and those issued by the Companies Registration Office. Nevertheless, these figures do give some encouragement.

The Service Sector

FINANCIAL SECTOR

The investment behaviour of major institutions continues to feature as a subject for concern. In a recent speech in Glasgow, David Walker, a Bank of England director, expressed fears that the capital markets will be increasingly influenced by short term considerations and that stock exchange turnover might be expected to rise to achieve performance measured only on a short term basis. He feared that part of this increased turnover would come from an increase in takeovers and suggested that companies' reaction to the fear of takeover conflicted with the need for companies to develop new products and services requiring long lead times. The increase in takeovers was seen as leading to an increase in gearing by both bidders and defenders resulting in the underlying business at the end of the day being saddled with a much greater burden of debt than at present.

Views expressed by so senior an individual must be taken seriously and invite a more rigorous analysis than they might otherwise be given. A dominant paradigm in financial theory is the concept of an efficient market which suggests that stock market prices reflect all available information. The commonsense of this proposition is clear. An analyst knowing something about a company uses that information to buy or sell stock. Competition among analysts, all searching for above average returns, ensures that, on average, prices reflect this information. In other words, stock market participants are rational individuals and stock market prices are the rational consequences of their actions.

Now consider the process by which prices can change. They will change if participants receive new information about a company and its prospects. This information is likely to arise in an unpredictable fashion with the consequence that price changes **cannot** be predicted. A share price may go up or down tomorrow depending on whether unpredictable information is good or bad. This last statement is not popular with the investment community. It suggests that their forecasting skills are poor, and indeed that is exactly what mountains of statistiscal evidence appear to suggest. To put it more explicitly, it would appear that above average investment performance is rather less certain than some managers would have us believe. Indeed, the evidence suggests that the best investment policy is to determine your investment horizon and then buy stocks and hold them for that period. Of course, some changes are inevitable in consequence of the changing requirements of individuals, tax changes and company takeovers and amalgamations but the alterations required by a portfolio will generally result in a much smaller turnover than is at present the case.

It appears then, that Mr Walker is right to be worried about further rises in portfolio turnover. It is unlikely to result in improved portfolio performance and may well result in inferior performance although it undoubtedly increases the returns to stockbrokers and provides managers with a (poor) justification for high management fees. Managers often point to their volume of investment activity as a proxy for the quality of their investment management, sheltered by the misconceptions of small investors regarding risk related returns that make performance measurement difficult and judgements about managers ability almost impossible.

Mr Walker might usefully have added a few comments on the desirability of low management expenses (including stockbrokers commission) and the absurdity of allowing managers to charge fees based on the value of assets managed even if the value of the assets has fallen under the managers tutelage. How often do we notice fees charged on a percentage basis being reduced even though a fund may have grown a multiple of several times and yet maintains the same investment policy and a similar number of holdings? Are we to believe that the quality of management is improved? If so it suggests that small investors were being short changed initially.

It is also of interest that Mr Walker implicitly suggests that debt is bad. Coming in the same month as the award of the Nobel Prize to Franco Modigliani for his (and Miller's) paper on Capital Structure, indicates that the value of the firm is not affected by the quantity of debt, it suggests that Mr Walker has not considered the implications of Modigliani's seminal work. An increase in debt will result in an increase in the cost of equity since the risk of equity rises but the overall cost of capital remains constant. Certainly relaxing Modigliani and Miller's assumptions clouds the theoretical position but it remains true that there is no convincing empirical evidence to suggest that capital structure is particularly important. Changes in the quantity of debt, unless unusually dramatic, are unlikely to have serious repercussions.

The final part of Mr Walker's warning suggests that short term performance seeking in the stock market will force industrial companies to change their behaviour and to seek short term profits at the expense of long term developments. The efficient market hypothesis suggests otherwise. Stock market investors will appraise all that is known about a company and will not deliberately ignore relevant information in deciding an appropriate price and return. Information about long term developments will be assessed and the share price will react accordingly. Preference will only be accorded to short term over long term developments if they are more profitable for the risk involved. What Mr Walker is really perceiving as a failure of the capital market is no such thing. Investors have been favouring short term developments because they are generally of lower risk and the returns accrue quickly. With interest rates historically high in real terms it is hardly surprising if investors prefer early returns.

Developments in the future are by their nature very uncertain so that even if the returns are great they may be less profitable than more immediate short term developments. To increase long term development what is required is drastic reduction in the rate of interest. Tinkering with the stock market and trying to alter investors' behaviour must come a poor second in the race to improve profitable long term investment.

DISTRIBUTIVE TRADES

According to the October Scottish Business Survey (SBS), sales of Scottish wholesale distributors remained essentially flat during the third quarter of 1985. Reflecting this, optimism about general trading conditions in the wholesale sector remained unchanged between July and October. However, a net 22% of respondents expected a rising trend in sales in the final quarter of this year. The latest CBI/FT survey indicated that, in the UK as a whole, the level of wholesale sales remained steady in the third quarter, with some increase being expected by respondents before the end of 1985.

Full-time employment in wholesaling fell between July and October and is expected to fall further in the fourth quarter. This is offset, though only partially, by actual and expected net increases in part-time employment. Wholesaler intentions to invest in premises fell rather markedly in the last quarter, with a net 22% of SBS respondents indicating that they had made downward revisions.

Wholesalers in Glasgow appear to have enjoyed a better third quarter performance than those in other Chamber of Commerce areas and, perhaps because of this, they seem generally more optimistsic about prospects (particularly in terms of sales) for the rest of the year (see Table 1).

After reaching record levels in August, retail sales in the UK fell well below expectations in September, according to the latest CBI/FT survey. While 67% of respondents had expected sales increases in September, only 45% of respondents actually realised such increases. The SBS indicates that for the third quarter as a whole, Scottish retailers enjoyed buoyant trading coditions: a net 64% of respondents reported sales increases over the preceding quarter.

Table 1 Geographical responses to October 1985 SBS Survey: Wholesaling

Item		Balance of respondents in:			
		G %	E %	D %	A %
Overall confidence	UP	+ 5	+ 2	- 8	- 7
Actual sales	UP	+19	-32	- 4	+ 1
Expected sales	UP	+53	+33	- 4	- 7
Actual employment	UP	+ 5	-20	- 4	-18
Expected employment	UP	-13	-20	- 4	+ 5
Investment intentions	UP	-26	-35	-44	- 5

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

In spite of the apparent slow-down in retail sales growth at the UK level, Scottish retailers remain optimistic: a net 59% of SBS respondents expect further trend growth in sales in the final three months of this year.

Reflecting the very good sales performance, employment in Scottish retailing grew in the past quarter, with a net 29% of SBS respondents reporting increases in total staff. Both full-time and part-time employment expanded. Some small further growth in employment is expected in the next three months, mostly involving part-time workers. 25% of retailers felt that insufficient floor space could be a constraint to further sales growth in the immediate future, and in response to this, a net 17% of respondents indicated that they had made upward revisions to their intentions to invest in premises.

The third quarter retail sales boom was enjoyed in all Chamber of Commerce areas, with Glasgow and Edinburgh showing particularly good results (see Table 2).

The CBI/FT survey indicates that, as expected, UK motor traders' sales were down in September after the high level of new registration sales in August. Nevertheless, a net 26% of respondents indicated that sales in September 1985 were higher than they had been in September 1984.

Table 2 Geographical responses to October 1985 SBS Survey : Retailing

Item		Balance of respondents in:			
		G %	E %	D %	A %
Overall confidence	UP	+52	-12	-10	- 1
Actual sales	UP	+91	+81	+36	+34
Expected sales	UP	+85	+31	+41	+10
Actual employment	UP	+42	+ 7	- 4	0
Expected employment	UP	-13	-20	- 4	+ 5
Investment intentions	UP	+13	- 6	+10	+64

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

TRANSPORT AND COMMUNICATION

Perhaps the most notable and certainly the most surprising news in the transport and communications sector this quarter was the action taken by guards at Glasgow Central Station in response to the introduction by Scotrail of the first train modified for driver only operation, on Friday 2 August. Media coverage of the cause of the 7-week dispute which cost £1m in lost revenue is somewhat unclear. However, some explanation as to the sequence of events and respective positions of the parties can be discerned.

Strathclyde Regional Council are required to contribute financially through the Passenger Transport Executive (PTE) to transport within the SPTE designated area. This contribution is commonly known as their Section 20 payment (for a fuller discussion see February 1984 **Commentary**, p42). In 1983 a working party composed of; the Scotrail chairman, selected regional councillors and leaders of the train unions, was set up to carry out a comprehensive review of the rail network. They reported that the only way of reducing the growing Section 20 payment (0.6m 1975 to £28m 1982) while maintaining and improving the standard of the rail network was by introducing the new working practices being pursued by British Rail at national level. Thus, integral to the level of the negotiated 1985/86 Section 20 payment was the decision to introduce, on an experimental basis, some degree of open stations, automatic ticket machines and driver-only operations (DOO). It was agreed by British Rail and the SPTE that the target date for introducing driver-only units would be October 1985, by which time the necessary rolling stock modifications would be completed. The first line earmarked for implementation of this policy, or Strathclyde Manning Agreement as it is better known, was Glasgow-Gourock/Wemyss Bay.

The NUR, on the other hand, had agreed at national level to oppose any introduction of driver-only operations. This was the state of play when on 2 August the first modified electrical multiple unit was put into service to work the first Gourock off-peak run of the day. The guard refused to work the train. He was sent home and the dispute escalated from that point - 186 guards at Glasgow Central walked out on unofficial strike. By 10 August SPTE announced that unless there was an agreement between the NUR and Scotrail on the Strathclyde Manning agreement they would cancel their commitment to the rail improvements which had been given the go-ahead by the Secretary of State for Scotland, George Younger, in May 1985.

Three days later Scotrail threatened to issue dismissal notices to the Glasgow guards unless they returned to work by mid-morning on Friday 16 August. Both Scotrail and Strathclyde Region estimated that the strike was costing them £60,000 a day. On 19 August guards at Airdrie, Balloch, Bridgeton and Hyndland staged a 24-hour walkout in protest at the decision by Scotrail to advertise the jobs of the 121 Glasgow Central guards who failed to meet the return to work deadline. The strike remained unofficial, but the NUR, under the leadership of Jimmy Knapp, wishing to avoid the situation in which the miners had found themselves, scheduled a national ballot of all members for Friday 23 August.

It was widely expected within the industry that the vote would be in favour of some form of industrial action which could involve strikes. On an 84% turnout, a slim majority voted against taking action. The situation in Scotland however was far from resolved. British Rail at both a national and Scottish level then refused to reinstate the sacked men unless the NUR agreed to a programme for the implementation of driver-only operated trains. In Strathclyde, Scotrail demanded as a further condition of re-employment that the men return to work before 12 September when a special union delegate conference to discuss the issue of DOO was to be held. This conference overturned the executive's policy against DOO and the Strathclyde guards returned to work on 23 September.

The current situation is that a new target date for the introduction of DOO trains has been set for January 1986. The only line this will affect is the Glasgow-Gourock/Weymss Bay as per the original plan. Scotrail plan to monitor this experiment with a view to extending the DOO programme. However, no such agreement has been reached on DOO freight trains. The main cause of the dispute between BR and the Unions at present is the union's refusal to operate freight trains which do not have radios fitted for reasons of safety. British Rail argue this would prove too costly a measure to implement.

Looking with hindsight at the results of the national ballot of NUR members it would seem that the decision to strike over the implementation of DOO was somewhat miscalculated, and demands a fuller examination of the issues involved. The primary reason behind the strike would appear to be a decision to abide by the official union policy of opposition to the introduction of driver-only operations. This is borne out by the corresponding sequence of events in England and Wales. British Rail's Western and Humberside areas were most affected by the action south of the border.

The NUR argue that their greatest concern is not lost jobs or wages but rather a decline in safety standards. This was the main argument put forward by the guards involved in the Strathclyde dispute. The concept of DOO when implemented on passenger services would not literally mean that the driver would have sole responsibility for the train. Rather the driver would be required to perform some of the functions which are at present the guard's responsibily, while the guard would be required to collect and sell tickets on the train. The additional duties expected of the driver include communicating by radio telephone links with the signalman. At present the guard makes contact from telephone boxes situated at points down the line. The collection and sale of tickets as required of the guard is at present carried out on the effected lines by a leading ticket man and it is he whose job will become redundant if the experiment proves successful. The expectation that 2 people could safely perform the functions of 3, the NUR argue is unrealistic.

The evidence emanating from the example of many Western European countries lies strongly on the side of driver-only operation. Indeed France, Denmark, Germany, the Netherlands, Switzerland and Sweden all operate driver-only trains on both commuter and freight services, and most of these countries do not consider radios essential on freight trains. However, a more convincing argument as to the inevitability of DOO in the Strathclyde Region in particular is the economic case for railways in general, especially in light of the pending further deregulation of bus services.

In May this year the Secretary of State for Scotland announced agreement to the Regional Council's application for capital grants of 75% of the expenditure associated with providing new or modernised rolling stock for the Ardrossan-Largs, Glasgow-Barrhead-Kilmarnock and Glasgow-East Kilbride services. As was briefly mentioned above, at the height of the guard's dispute Strathclyde Regional Council intimated that they were not prepared to increase the level of their Section 20 payment. They also warned that any delay in implementing DOO and open stations could prejudice the introduction of electrified services to Ayr and Ardrossan and could necessitate a reappraisal of the decision to extend electrification to Largs.

The case of the Ayr/Ardrossan line represents a very good illustration of the problems facing rail transport in Strathclyde at present. There are a number of factors which affect the usage of rail services; for example, population, car ownership, the reliability of rail servcices, unemployment, industrial action and alternative public transport systems. On the Ayr/Ardrossan line in particular the last of these has caused the greatest concern to the rail network. Since the 1981 Public Passenger Vehicles Act a number of operators have obtained licences to operate limited-stop services between Glasgow and various towns in the Ayr region. Currently this accounts for up to 300 single bus journeys per week at fare levels far lower than those charged on the rail network. The seriousness of the problem for Scotrail is illustrated by a study conducted by Western SMT which indicated that around 50% of the passengers they carried had been attracted away from rail services. Indeed from 1979/80 when the electrification programme was authorised to 1987 when the electrification will be complete the demand for rail transport will have fallen by some 8% less than envisaged.

With the prospect of complete deregulation of bus routes scheduled for October 1986 and the increasing budget constraints being placed on regional councils by central government, it would appear that the regional council's threats to curtail their rail investment programme payment were not made lightly.

Thus, is would seem inevitable from the available evidence that the guards would have to relinquish their stand on driver-only operations at some stage if they wished to maintain the existing rail transport system in Strathclyde Region.

TOURISM

Results from the Scottish Tourist Board's annual **Survey of Visitors to Tourist Attractions** (SVTA) for 1984 indicate that 17.4 million visits were made to the 425 attractions taking part in the survey. Figures have been collected annually since 1977 and provide a 'barometer' type indication of the health of Scotland's tourist and leisure industries. The 17.4 million total includes 6 million visits to museums and galleries, 4.1 million visits to castles and historic houses and 1.3 million visits to heritage centres. Five points about the SVTA data are worth highlighting.

First, the SVTA returns include visits by Scottish residents on day trips as well as those made by overseas and domestic tourists. Secondly, 45% of the SVTA total is accounted for by just twenty attractions. Glasgow's Burrell Collection was the most important of this 'top twenty', with a 1984 total of 1.1 million visitors. Thirdly, the relatively small scale of the attractions sector in Scotland is demonstrated by the fact that just 8 visitor attractions in England have an annual admissions aggregate equivalent to the SVTA total of 17.4 million: Blackpool's Pleasure Beach (7,000,000), Westminster Abbey (3,000,000), York Minster (2,000,000), the Tower of London (2,200,000), Alton Towers (1,600,000), Longleat (800,000), Stonehenge (605,000) and the Bronte Parsonage (206,000). Fourthly, the recent trend in numbers of visits is not especially impressive, and for the all-important historic heritage features is indicative of an overall decline. Fifthly, VSTA indicates the wide range of public, private and voluntary organisations providing and operating leisure attractions. Analysis of the trends in admissions by sector over the period 1979-84 suggests that the National Trust for Scotland has been out-performing the rest.

The attractions sector is a critical focus of publicfunding activities in tourism. Traditionally, local authorities have provided loss-leader amenities, an aspect which was (and to some extent still is) a particularly pronounced feature in the seaside resorts. But nowadays the principal public sector role is affected by Government through three of its agencies (Scottish Tourist Board, the Highlands and Islands Development Board, and the Scottish Development Agency). These three bodies possess a variety of financial assistance powers to help the private sector provide viable attractions. To deliver the necessary incentives for the bigger and more ambitious prospects, attention is increasingly focussed on the SDA and the work of its **Tourism and Leisure Division.** Until high quality visitor attractions do emerge - irrespective of their scale - the stark truth is that Scotland's tourism will not attract the new and expanded markets necessary for the industry to fulfil its huge growth potential.

The Labour Market

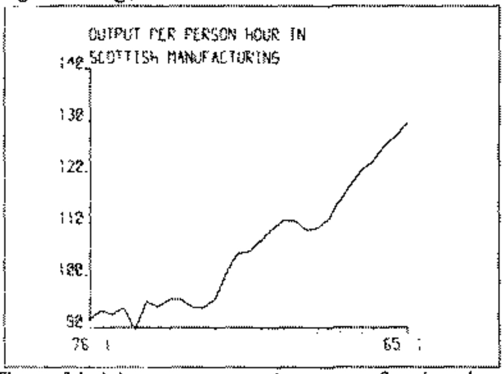
DEVELOPMENTS IN INTERNAL LABOUR MARKETS

"Internal" labour markets refer to the markets for labour which exist within firms. Changing the level of employment in a company is often associated with significant fixed costs. For example, redundancies usually incur financial penalties for firms. Furthermore, the hiring process, involving search for suitably qualified workers and say subsequent on-the-job training, represents an investment by the firm in its workforce. In general, firms invest in the "human capital" of their workforce just as they do in their physical capital of plant and machinery.

An important consequence of this and other elements of fixed costs such as taxes on employment is that firms do not adjust their employment levels rapidly in response to any "disturbances" they may experience, such as changes in the demand for their product. For example, a reduction in demand is extremely unlikely to be met by an immediate contraction in firms' employment. Rather, firms are likely to respond in the first instance by adjusting the labour services they derive from their existing stock of employees. Thus, firms adjust via their internal labour market, adjustments which will be manifested in changes in output per employee - one measure of labour productivity.

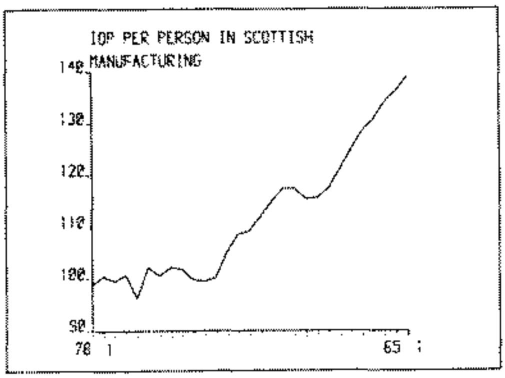
In the case of a contraction in demand, the immediate response is likely to be a reduction in the utilisation rate of the labour force and so a reduction in output per employee. This response can be easily reversed if it transpires that the reduction in demand is purely transitory. On the other hand, if the demand contraction persists it is likely that it will ultimately have an impact on the external labour market, as firms judge that their current labour force is likely to be excess to their requirements even over the longer term. The "shock-absorber" role of the internal labour market will then, for sustained disturbances, ultimately spill over into changes in employment.

In the case of a stimulus to demand firms are likely to respond initially by increasing the degree of utilisation of the existing labour force, thereby increasing output/employee. In fact, as the accompanying graph shows, output per employee in Scottish manufacturing industries has exhibited a marked increase since 1980. However, throughout the entire period employment in Scottish manufacturing industry has fallen dramatically and, at least until mid-1983, manufacturing output was falling. The increase in productivity, at least over the earlier part of this period, seems likely to have been a reflection of the fact that firms were shedding their least productive labour first and that some of the employment contraction reflected elimination of labour which had previously been "hoarded" in anticipation of an upturn in demand. Indeed, such was the previous disequilibrium in firms' employment levels relative to currently expected demand, labour continued to be shed even as output picked up a little in manufacturing industries (primarily in engineering).



The slight recovery in manufacturing output experienced most recently is perhaps suggestive of a new, and more conventional, phase of activity in which further increases in manufacturing output would begin to exert a favourable effect on employment, whilst first being manifested in additional productivity increases.

Internal labour market adjustments can occur through two main channels: hours worked per employee and effort per hour worked. The former, plotted in the accompanying graph, is itself the result of adjustments in both overtime hours and hours lost through short-time working per employee. Hours per employee have shown some slight tendency to rise through 1984 and the first two quarters of 1985. Output per person hour has shown a rather more marked tendency to rise over the same period. It seems likely that, if the rise in manufacturing output is sustained, there will be some stabilisation in manufacturing employment.



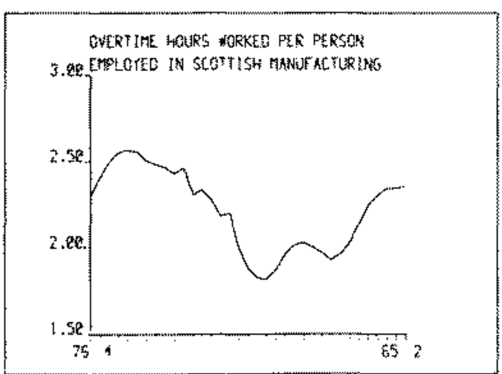


Table 1 represents seasonally adjusted estimates of output per employee for both Scotland and the UK over the period 1979 to 1985 Q1. (The Scottish series is obtained by dividing a seasonally adjusted index of manufacturing output by a crude measure of seasonally adjusted employment, so that the series is subject to a wider margin of error than its UK counterpart.)

UK productivity has increased continuously since 1981 Q1 (except for 1984 Q4). The Scottish productivity trend is also upward (with the exceptions of 1982 Q3 and Q4), and indeed since the middle of 1983 has exhibited a considerably greater increase than has its UK counterpart, as is evidenced by the fact that Scottish productivity as a percentage of UK productivitry has shown a marked increase. However, the period has also seen a more marked decline in employment in Scottish manufacturing industries as compared to the UK. (See the discussion of the external labour market which follows.)

Table 1 Seasonally adjusted index of output per person employed in manufacturing industries (1980 = 100)

		Scotland	UK	Scotland as %
1979	Q1	96.3	101.7	94.7
	Q2	102.2	106.6	95.9
	Q3	100.6	102.8	97.9
	Q4	102.3	105.2	97.3
1980	Q1	101.8	103.2	98.6
	Q2	99.7	100.8	98.9
	Q3	99.5	98.6	100.9
	Q4	100.0	97.4	102.7
1981	Q1	105.1	99.0	106.2
	Q2	108.6	101.7	106.8
	Q3	109.3	105.5	103.6
	Q4	112.1	107.3	104.5
1982	Q1	115.2	108.1	106.6
	Q2	117.5	109.8	107.0
	Q3	117.5	110.7	106.1
	Q4	115.4	111.1	103.9
1983	Q1	115.7	115.4	100.3
	Q2	117.5	116.0	101.3
	Q3	121.2	119.3	101.6
	Q4	124.9	121.2	103.1
1984	Q1	128.5	121.9	105.4
	Q2	130.7	123.0	106.3
	Q3	134.1	125.2	107.4
	Q4	136.1	124.2	109.6
1985	Q1	138.9	125.0	111.1

Sources: Scotland: Fraser of Allander Institute; UK: Department Employment Gazette

DEVELOPMENTS IN EXTERNAL LABOUR MARKETS
EMPLOYMENT

Over the year ending June 1985, total numbers of employees in employment have risen by only 6,000. This increase masks a trend which has been observed previously: male employment continues to recede, with gains in female employment, and, in particular, part-time female employment, accounting for all of the recorded increase. Total female employment over the period increased by around 17,000 with part-time female employment being enlargened to the tune of 22,000. Full-time female employment would therefore appear to have fallen by 5,000. In part, the expansion of female employment will have been due to the fact that retrenchment in service activities (traditional employers of female labour) has not been so pronounced as in other industries. It is also likely, however, that producers will have reacted to depressed and uncertain business conditions by switching toward more flexible forms of labour hiring. This is evidenced by the growth of the employment of part-time female labour and, as yet, this trend shows no sign of abating.

Table 2 % share of employees in employment by industry and employee category+

	1979 Q2	1983 Q2	1984 Q2	1985 Q2
Industry	39.7	33.4	32.8	32.2
Manufacturing	28.8	23.1	22.6	22.3
Services	58.0	63.5	65.0	65.7
Male	57.4	55.4	54.3	53.5
Female:				
Total	42.6	43.9	45.7	46.4
Part-time	- ++	18.6	19.9	21.0

+Source: Department of Employment Gazette (various)
++ not available

Table 2 shows how the share of employees in employment by industry has changed since 1979. It is immediately evident from this table that there has been a profound contraction in the relative importance of manufacturing as an employer of Scottish labour. Since 1979 there has been a 6% fall in manufacturing's share of total employment (from 28.7% to 22.3%). All of this loss has been at the hands of services which has increased its share of total employment from 58% to 66% over the period.

The ascendancy of service activity is something which would normally be associated with secular rather than cyclical economic processes. High income elasticity of demand for service products combined with limited opportunities for productivity growth in services, it is often observed, result in services commanding a larger share of total economic activity. These factors can, however, hardly explain the present results.

At least three broad categories of explanation appear more plausible. First, it should be appreciated that the **relative** growth of service employment since 1979 has occurred against a background where service employment in **absolute terms** has been increasing on average by less than 10,000 per year, and most, if not all, of this has come in the form of part-time female labour. This suggests that service activity employers may have been more inclined to hoard labour in the face of uncertain demand than have employers elsewhere. Certainly, if the skill content of service sector labour is greater than in manufacturing and in other industries (and this is true only of some service sectors (see below)) a greater reluctance to discard labour makes sense: skilled labour is likely to be more difficult to find and more expensive to retrain than is unskilled labour.

This, however, would appear to be only part of the story. It has been argued that the discovery of North Sea oil is likely to have had a debilitating effect on the competitiveness of British industry. To the extent that the market for services is sheltered from outside competition, a relative movement of resources toward services might have been expected. The observed change in the structure of employment in favour of services is not inconsistent with such a view. It should be recognised, however, that service sector employment has continued to grow over the past year; a year in which competitiveness was boosted by the undervaluation of sterling. It is possible that lags in adjustment to exchange rate movements may underlie this observation.

There remains the question of the effect that movement in real wages may have had on service sector employment. It is well documented that male manual weekly earnings have lost ground in relation to the earnings of non-manual workers in Scotland (**Commentary** May 1985). It could be argued that this would militate against service sector employment expansion to the extent that services employs a large proportion of the skilled, male labour force (Moar and Fraser (1981)). The skill compositionof the labour force in services is, however, quite different in different kinds of service activity.

Distributive trades is both a large service sector and the largest employer of female labour in the economy. To the extent that this workforce has been unable to maintain real wage increases of an order comparable to those elsewhere in the economy, there will have been less incentive to shed service labour and perhaps even an inducement to increased hiring.

In summary, it is difficult to disentangle the effects of various influences which may have acted to promote service sector employment in the past six years. Here we have noted some, but other factors such as changing consumer tastes and the introduction of new products are also bound to have had some effect. Casual observation suggests a blossoming of new service activity: some examples are the high street print-shop, computer software outlets and leisure centres of all shapes and forms. The origins of these cannot easily be analysed in terms of a macro-economic, price-output framework.

It is of some interest to compare the relative performance of service sector employment in Scotland with the overall experience of Great Britain. The relevant data are summarised in Table 3 These data can be read as follows: a value of one means that Scotland exhibits the same degree of specialisation in an employment category as does Great Britain on average; and a value less (greater) than one means that Scotland is less (more) specialised in a category than is Great Britain.

Table 3 Scottish/Great Britain employment relatives by industry and employee category+

	1979 Q2	1983 Q2	1984 Q2	1985 Q2
Industry	.995	.963	.972	.972
Manufacturing	.917	.863	.865	.865
Services	0.993	0.993	1.005	1.005
Male	.986	.975	.969	.967
Female:				
Total	1.020	1.016	1.039	1.039
Part-time	- ++	.972	.993	1.010

+Source: Department of Employment Gazette (various)
++ not available.

Inspection of Table 3 shows that in 1979 the Scottish economy employed proportionately more people in services and less in other activities than did Great Britain as a whole. This position has remained more or less unchanged over the six year period to 1985. The inference is that the contraction of industrial (non-service) employment elsewhere in Scotland has been no more or less severe than in Great Britain. The data do, however, suggest that there has been a slightly quicker rundown of manufacturing in Scotland with other non-service industries filling the gap to maintain Scotland's balance of service/industrial activity vis-a-vis the rest of the country.

The most interesting feature of Table 3 is that it shows that the growth in importance of female labour has been more pronounced in Scotland than in Great Britain over the period 1979-1985. The evidence produced here and elsewhere (McNie and Carmichael (1985)) suggests that this trend cannot entirely be explained by structural factors. If this had been the case, one might also have observed increasing employment specialisation in services in Scotland compared to Great Britain, but instead a maintenance of the status quo over the period 1979-1985 has been observed. The data therefore suggest that there may have been some substitution of female for male labour and it would appear this substitution has been more pronounced in Scotland than in the remainder of Great Britain. Why this should be so is not immediately evident, but it might be a consequence of the greater availability of female labour in Scotland combined with the fact that skill levels in Scottish industry are thought to be lower than elsewhere in Great Britain (Fraser and Moar (1981)). Both these factors are conducive to greater ease of substitution of female for male labour.

EARNINGS

The Department of Employment has recently released the main results of the New Earnings Survey for 1985. These results are not yet available separately for Scotland so the discussion here relates to average figures for Great Britain.

The Department of Employment reports that in April 1985 average gross weekly earnings for adult employees were 7.2% higher than in April 1984. For adult males the corresponding increase was 7.5%

and for females the increase was 7.7%. It might appear anomalous that the average increase is less than both the component increases. The reason for this lies in the fact that the weight accorded to the high income earners (males) must have fallen between the two periods. In other words, the share of female employment in total employment would appear to have risen. This is confirmed in the employment figures reported in this section.

The level of average weekly earnings reflects not only pay settlement levels but is also affected by such factors as short and overtime working. It is difficult therefore to make a simple association between the rate of earnings increases and numbers employed. It is clear, nonetheless, that for those in employment real income has increased over the period 1984-85.

UNEMPLOYMENT

On an adjusted basis unemployment including school leavers was 353,311 as of October 1985, a fall of 2,452 as compared to September of this year, but a rise of 10,201 since October 1984. Unemployment of school leavers in that month fell by 3,141 to 18,641, so that on an unadjusted basis unemployment excluding school leavers actually rose by 689. On a seasonally adjusted basis excluding school leavers unemployment actually rose by 689.

On a seasonally adjusted basis, excluding school leavers, unemployment rose by 2,900 as compared to September to a total of 338,900 which is 12,700 greater than in the same month of the preceding year.

A slightly longer-term perspective is provided by Table 4 which summarises the numbers and rate of unemployment in Scotland on a seasonally adjusted basis (excluding school leavers) at selected intervals over the period 1979 Q2 to 1985 Q3. The striking feature is that during this period of about 6 years unemployment has more than doubled - in fact there has been an increase in numbers unemployed of around 112%.

Of course this dramatic change has not been confined to Scotland as the comparable data for the UK which are presented in Table 5 illustrate. Again unemployment has more than doubled, but here an even bigger increase in numbers unemployed - of 155% - is apparent. The implication that Scotland has suffered comparatively less than the UK as a whole in terms of increases in unemployment since 1979 is broadly supported by the data in Table 6, on both the difference in the Scottish-UK unemployment rates and the ratio of the two. Both measures indicate some narrowing of **relative** positions over the period 1979 to 1983, but some widening is again apparent in 1984 and 1985. Nevertheless, the Scottish-UK "unemployment gap" is still noticeably lower than it has been in the recent past.

Table 4 Scottish unemployment (excluding school leavers, seasonally adjusted)

		Numbers (000's)	Rate
1979	Q2	159.4	7.0
1980	Q2	183.6	8.1
1981	Q2	263.1	11.6
1982	Q2	295.8	13.0
1983	Q2	316.2	14.0
1984	Q1	320.9	14.2
	Q2	331.9	14.3
	Q3	324.6	14.4
	Q4	325.9	14.4
1985	Q1	329.6	14.6
	Q2	338.4	15.0
	Q3	337.5	14.9

Source: Employment Gazette

Table 5 UK unemployment (excluding school leavers, seasonally adjusted)

		Numbers ('000)	Percent
1979	Q2	1,246.4	5.1
1980	Q2	1,416.6	5.8
1981	Q2	2,362.2	9.8
1982	Q2	2,741.5	11.3
1983	Q2	2,985.6	12.4
1984	Q1	2,996.1	12.4
	Q2	3,023.3	12.5
	Q3	3,068.8	12.7
	Q4	3,099.0	12.8
1985	Q1	3,138.6	13.0
	Q2	3,174.0	13.1

Source: Department of Employment Press Notices, Employment Gazette and Economic Trends

Little can be read into this observation without considerable further analysis, but it should be kept in mind that the implication is simply that the increase in registered unemployment in Scotland since 1979 has been slightly less dramatic than in the UK. Regional labour markets, however, cannot be treated as if behaviour therein was independent of that in the rest of the UK and elsewhere. In particular, cummulative net migration to the rest of the UK over the 1979-1984 period amounted to around 36,900 and an additional 58,900 left to go overseas (which in total amounts to nearly 30% of current unemployment levels).

Table 6 Comparison of Scottish and UK unemployment rates

		Scottish rate less UK rate (percent)	Scottish rate/ UK rate
1979	Q2	1.9	1.37
1980	Q2	2.3	1.40
1981	Q2	1.8	1.18
1982	Q2	1.7	1.15
1983	Q2	1.6	1.13
1984	Q1	1.8	1.15
	Q2	1.8	1.14
	Q3	1.7	1.13
	Q4	1.6	1.13
1985	Q1	1.6	1.12
	Q2	1.9	1.15
	Q3	1.9	1.14

Source: Department of Employment Press Notices, Employment Gazette and Economic Trends

There has recently been some dispute over the "true" level of unemployment in the UK, with the Labour Party claiming that it is 5m rather then the current official estimate of just over 3m, whereas Michael Edwardes has recently claimed that unemployment is as low as 1.5m. In a Scottish context, as is discussed in detail elsewhere in this **Commentary**, similar methods of estimation imply a high estimate of over 550,000 and a low estimate of 150,000. The difficulties arise because the official definition of unemployment is based on the numbers of claimants, whereas a true economic definition requires the unemployed to be "actively seeking" employment. Some who are claimants (such as the severely disabled) undoubtedly do not come into this category; some who are not claimants (such as many married women who are not entitled to benefits) undoubtedly do. It is difficult to assess the relative sizes of these groups, but it seems likely that, on the available evidence, official estimates understate the true extent of unemployment.

Is unemployment a problem? In a dynamic mixed economy there will always be shifts in the pattern of consumers' demands across products which call for changes in the distibution of employment across firms, skills, industries and locations. Since such changes take time and often involve quite painful transition for the individuals concerned, some degree of unemployment is unavoidable, especially given imperfections in the flow of information in labour markets. However, all political parties in the UK now believe that unemployment is unacceptably high. No doubt such concensus in part reflects recognition of the fact that, for many people at least, unemployment does not represent a merely transitory state between jobs, but a durable condition. For example, by April 1985 the number of people in Scotland who had been out of work for more than a year had risen to over 140,000.

There is then a consensus that unemployment is a problem. Here the agreement ends, however. The present Government believes that there is no deficiency of aggregate demand in the economy. The unemployment rate cannot be brought down by conventional expansionary policies, except perhaps temporarily and then only at the cost of higher subsequent inflation (and, they occasionally assert, eventually even higher unemployment). The underlying proposition is that the UK economy automatically adjusts to the "natural rate" of unemployment - which is the only rate at which a stable inflation rate can be sustained.

Accordingly, the Government has chosen to direct its policies at the supply side of the economy (although some might express scepticism at this interpretation of some of the temporary employment schemes). From the Queen's speech at the opening of the new Parliamentary session, it is clear that the Government intends to maintain this position.

The proposed tax reduction (financed by privatisation), for example, is intended to operate via increasing the incentive to work at the margin and by lowering the gross wage claims required to yield any given take home pay. Any demand stimulus effects of the change are seen as quite beside the point, and could in any case be offset by deliberate policy action.

Keynesian critics perceive the need for at least selective expansion on the grounds that in certain areas the presence of excess capacity combined with the investment requirements of the public sector make it likely that appropriately directed Government expenditures would exert their primary impact on output and employment, and not on inflation. The juxtaposition of a deteriorating stock of public sector buildings and excess capacity in the construction industry amply illustrates their case.

INDUSTRIAL RELATIONS IN SCOTLAND

Uncertainty and fears of unemployment continue to be the dominant features of industrial relations in Scotland. Within the steel industry the proposed closure of Gartcosh and uncertainty over the future of the Dalziell works has prompted, yet again, fears abour the medium- and long-term future of Ravenscraig. Announcements of redundancies have also been made at Scott Lithgows, Babcocks, John Brown's, Springburn railway workshops and a number of electronics firms.

Two issues contributed to similar fears in the transport sector. First, the possible employment consequences of the potential deregulation of road transport prompted employees to raise job security related questions. Secondly, within the railway industry fears of reductions in employment arising from the progressive introduction of a range of labour saving procedures remain despite the vote against industrial action by the NUR concerning the introduction of driver-only-operated trains.

In education fears of unemployment and/or an intensification of work are even replacing the traditional issues of low pay and declining standards of living. The annual reductions in the UGC grant to Scottish universities will ensure that the current discussions within the Universities of Aberdeen, St Andrews and Strathclyde as to possible restructuring and related job losses will be replicated in other Scottish universities. The consequences of such plans may well involve a redistribution of staff among universities, some staff reductions and a growth in the percentages employed on short, fixed-term contracts.

Some indications of potential future job losses in primary and secondary education can be seen in the results of pupil projections by the Scottish Education Department (Statistical Bulletins No2/B2/1984 and 1/B1/1985). These indicate a significant decline in the numbers of primary and secondary pupils. Between 1982 and 1987 the number of primary pupils will fall by 10% and there is a projected drop of 30% in the numbers of secondary pupils between 1982 and 1991. Such aggregated figures conceal considerable variations among regions. In Strathclyde it is projected that primary numbers will fall by 12% by 1987, before rising to more than the 1982 level by 1996. Secondary pupil numbers are projected to fall by 36% before increasing gradually. In Grampian secondary pupil numbers are projected to fall by 15% by 1990.

Between 1983 and 1984 the numbers of primary pupils fell by 2.3% and the number of teachers by 2.5%. In the same period there was a decline of 1.5% (430) in the numbers of secondary teachers. An inevitable implication of a 36% drop in the numbers of secondary teachers, plus attempts to reduce the percentage above basic staff complements, will be significant job reductions and closures of schools. The increasing surplus of teachers may well be a feature influencing the Government not to concede to any pay award based on criteria other than replacement requirements. The continued reluctance of the Scottish Office to negotiate leaves the teaching unions with the options of escalating the industrial action or witnessing a gradual loss of members to other employment. In either case the traditional degree of commitment by teachers will have been permanently lost. (This and further implications of the dispute involving the teaching profession will be the subject of an extended article in a subsequent **Commentary**.)

Apart from industrial action amongst knitwear workers the main features of Scottish industrial relations are a function of national negotiations. The settlements for both local authority manual workers and ambulance men have implications for comparable groups in a number a public sectors, most especially hospital workers. Likewise the future contours of the Scottish coal mining industry will be a result of the new plan for coal and the base figure of £42 per tonne production costs rather than the outcome of any action within Scotland.

Regional Review

Data provided by the Department of Employment reveal that for most regions the unemployment level has risen over the past year. In addition, there is little evidence that the rates of increase have slowed appreciably (for comparative data see August 1985 and November 1984 **Commentaries**). As in previous quarters, there is considerable variation in unemployment rates among regions. Only three regions have unemployment rates below 10% (Borders, Shetland and Grampian) whilst five are above 15% (Central, Fife, Highland, Stsrathclyde and Western Isles). Explanations for such divergence are not difficult to find and have been outlined in past **Commentaries**.

Table 1 Unemployment by Scottish region

	Total	Change since Oct 84	Rate % Oct 85	Rate % Oct 84
Borders	3,379	- 37	8.9	9.0
Central	18,666	363	16.1	15.8
Dumfries/ G/way	7,949	302	13.9	13.3
Fife	21,144	1,696	15.8	14.6
Grampian	17,129	360	7.8	7.6
Highland	13,099	596	15.9	15.2
Lothian	45,624	882	12.6	12.4
S/clyde	197,292	5,098	18.8	18.4
Tayside	25,753	997	14.8	14.2
Western Isles	1,814	- 118	18.6	19.8
Orkney	765	26	11.5	11.1
Shetland	697	30	5.9	5.6
Scotland	353,311	10,201	15.6	15.2

Source: Department of Employment

There is also marked intra-regional variation in unemployment rates as illustrated by the figures for individual travel to work areas (TTWA). The differential between the TTWA's with the highest and lowest unemployment rates, is greater than 8% in seven out of nine regions (see Table 2). The differential is widest in Grampian where the relative prosperity of Aberdeen is obviously a factor. Conversely, the differential is narrowest in Borders.

Table 2 TTWA with highest and lowest unemployment rates

	TTWA	%	H-L
Borders	H Berwickshire	11.4	4.0
	L Galashiels	7.4	
Central	H Alloa	19.9	8.4
	L Stirling	11.5	
Dumfries &	H Cumnock & Sanquar	25.6	15.0
Galloway	L Dumfries	10.6	
Fife	H Kirkcaldy	17.0	5.8
	L North East Fife	11.2	
Grampian	H Forres	25.3	19.3
	L Aberdeen	6.0	
Highland	H Invergordon & Dingwall	21.2	8.7
	L Thurso	7.7	
Lothian	H Bathgate	21.7	14.0
	L Edinburgh	7.7	
Strathclyde	H Irvine	25.4	11.0
	L Ayr	14.4	
Tayside	H Arbroath	18.1	8.2
	L Perth	9.9	

Source: Department of Employment

Cumnock and Sanquar remains the TWWA with the highest unemployment rate although it is closely followed by Irvine and Forres.

Due to definitional changes, vacancy statistiscs for October are not directly comparable with those for a year earlier. The new definition now includes self-employed vacancies whilst those handled by the Professional and Executive Register are excluded. The October data are shown in Table 3 and have been used to compile unemployment/vacancy rates for the Scottish regions.

Whilst it is to be expected that reported vacancies underestimate the actual number of vacancies, the figures still indicate a serious deficiecy in employment opportunities. For example, in eight regions there are more than eighteen unemployed persons per reported vacancy. Although the data tell us nothing about the skill profiles of the unemployed, the deficiency in vacancies does imply that the supply-side characteristics of the unemployed are to some extent irrelevant. This conclusion is given more force when it is noted that the deficiency of vacancies is general to all regions.

Table 3 Vacancies by region and unemployment/vacancy ratios

	Vacancies Oct 85	U/V 85
Borders	521	6.5
Central	974	19.2
Dumfries & Galloway	413	19.2
Fife	1,163	18.2
Grampian	2,603	6.6
Highland	677	19.3
Lothoan	2,814	16.2
Strathclyde	8,870	22.0
Tayside	1,090	23.6
Orkney	32	23.9
Shetland	68	10.3
Western Isles	81	22.4
Scotland	19,406	18.2

Source: Department of Employment

One of the most noticeable trends in employment in the past few years has been the increase in the numbers of part-time female workers. It is of interest to cosider what effects this may have had on the relative experience of unemployed males and females at the regional level.

Over the past year, male unemployment has risen in all but two of the regions, and the only significant reduction was in the Western Isles (see Table 4). However, female unemployment fell in three regions and elsewhere there was only marginal change, with the exceptions of Fife and Orkney.

Over the past year, therefore, male unemployment has deteriorated relative to female unemployment. Median duration of those unemployed as at July 1985 is shown in Table 5. In most regions the median for males exceeds that for females and typically they do so by quite a margin. Shetland is the only region where this is not the case, but, given the preponderance of male-orientated jobs in the oil industry, this is not too surprising.

Table 4 Unemployment rates: males and females

	Male % Oct 85	Female % Oct 85	Male % Oct 84	Female % Oct 84	Change for males	Change for females
Borders	9.6	8.0	9.7	7.9	-0.1	0.1
Central	18.9	12.3	18.3	12.5	0.6	-0.2
Dumfries & Galloway	15.3	11.8	14.4	11.6	0.9	0.2
Fife	18.2	12.8	16.2	12.1	2.0	0.7
Grampian	8.0	7.5	7.8	7.7	0.2	-0.2
Highland	18.5	12.2	17.6	12.1	0.8	0.1
Lothian	15.8	8.8	15.1	8.9	0.7	-0.1
Strathclyde	23.7	12.5	22.6	12.4	1.1	0.1
Tayside	17.8	11.2	16.8	11.1	1.0	0.1
Western Isles	23.3	12.4	25.3	12.2	-2.0	0.2
Orkney	13.3	9.0	12.8	9.5	0.5	0.5
Shetland	5.9	5.9	5.6	5.9	0.3	0.0
Scotland	19.1	11.2	18.3	11.1	0.8	0.1

Source: Department of Employment

Table 5 Median duration

	Males	Females	All	M-F
Borders	29.62	22.03	25.76	7.59
Central	38.92	30.16	35.47	8.76
Dumfries & Galloway	41.20	30.56	36.86	10.64
Fife	36.54	25.84	31.84	10.70
Grampian	26.39	21.68	24.13	4.71
Highland	32.82	26.73	30.86	6.09
Lothian	42.01	25.76	35.81	16.25
Strathclyde	50.64	29.34	43.11	21.30
Tayside	40.81	29.37	36.28	11.44
Western Isles	32.40	25.83	30.55	6.57
Orkney	40.59	31.83	37.29	8.76
Shetland	21.85	22.61	22.14	-0.76
Scotland	44.71	22.78	38.15	16.93

Source: Department of Employment

Of those which follow the typical pattern, Strathclyde and Lothian represent the extreme cases. In these regions the median duration for males is five and four months greater than for females respectively. In all other regions the difference is around two months or more.

These data indicate the severity of the problems of long-term unemployment. Strathclyde is easily the worst affected region. Here, the median duration approaches one year for males and eight months for females. However, even in the relatively better-off areas of Grampian and Shetlands both sexes have a median duration in excess of five months.

Table 6 Distribution of unemployment spells: females

	0-4	4-13	13-26	26-52	52-104	104 & over
Borders	17.6	19.8	18.2	20.6	11.9	12.0
Central	13.1	17.1	16.0	22.6	15.9	15.3
Dumfries & Galloway	14.2	15.4	15.9	22.5	15.2	16.7
Fife	15.0	18.0	17.2	23.4	13.5	12.9
Grampian	18.4	19.2	18.7	23.2	11.4	9.2
Highland	15.6	17.7	16.0	24.6	13.9	12.3
Lothian	17.9	16.2	16.3	22.2	14.5	13.1
Strathclyde	15.2	16.6	15.4	20.6	14.4	17.9
Tayside	13.7	16.2	16.8	22.6	14.8	15.8
Orkney	11.6	19.8	12.9	23.3	13.8	18.5
Shetland	16.9	20.0	17.7	23.8	12.7	8.8
Western Isles	17.5	15.9	16.8	22.2	14.2	13.4
Scotland	15.5	16.8	16.1	21.6	14.2	15.7

Note: Figures may not add to 100 due to rounding

Source: Department of Employment

In terms of the distribution of unemployment spell, for both sexes, for those on the register at July 1985 a number of differences are again apparent (see Tables 6 and 7). For females, the duration category within which the highest percentage of the unemployed fall is 26-52 weeks for all regions. Meanwhile, for males the corresponding category is most frequently 104 weeks and over, although in this instance there is some regional variation. It is also obvious that, for all regions the distribution of female unemployment by duration is more favourable than for males. Thus, for instance, only in the Shetlands had more than 50% of unemployed males been on the register for less than six months whilst this characteristic was common for female unemployment in six regions.

In all regions, the percentage of female unemployed for less than six months exceeded the same percentage for unemployed males. At the other end of the "duration scale", the percentage of males on the register for over a year easily exceeded the corresponding figure for females.

Data on the flows off the register for June-July 1985 also show that females have a relatively favourable experience. In eight out of twelve regions, the off-flow as a percentage of the stock of unemployed is greater for females than for males (see Table 8). Where labour is homogeneous within the sex categories, these figures can be interpreted as the "probability of leaving the register during the period. On this interpretation females have a better chance of leaving the register in most regions.

Table 7 Distribution of unemployment spell: males

	% experiencing duration (weeks)					
	0-4	4-13	13-26	26-59	52-104	104 & over
Borders	15.2	17.1	14.5	19.1	13.4	20.6
Central	9.8	15.5	15.6	18.5	16.7	23.9
Dumfries & Galloway	10.4	14.5	12.6	20.7	16.8	25.0
Fife	10.7	15.9	15.8	18.2	17.7	21.7
Grampian	16.8	18.9	14.0	19.2	13.7	17.5
Highland	11.4	18.2	14.4	20.5	18.8	16.7
Lothian	10.6	14.1	13.7	18.1	17.4	26.0
Strathclyde	8.4	12.9	12.7	16.9	17.0	32.1
Tayside	10.7	13.8	12.9	19.7	16.1	26.7
Orkney	11.8	17.6	10.0	19.2	14.0	27.4
Western Isles	13.6	17.0	14.3	19.4	16.2	19.5
Scotland	9.6	14.0	13.3	17.8	16.9	28.4

Note: Figures may not add to 100 due to rounding

Source: Department of Employment

Amongst the various explanations for the above observations are the following. First, the arrangements regarding the collection of unemployment statistics may cause female figures to be biased downwards especially for the longer duration spells. The statistics are compiled on a claimants basis which means that, for example, married females who are unemployed for more than one year and who no longer qualify for unemployment benefit may be excluded from the register as they do not qualify for supplementary benefit if their partner is in employment. This can also apply to males, but it is expected to be less important. This can at least partly explain the observed differences in the distribution of unemployment by duration.

Secondly, the relatively high male unemployment rates can also be partly explained by the lower propensity for females to register. Thus, females who leave employment and who do not qualify as claimants due to the employment status of their partners or because of their own contributions in the past, will not be included in the unemployment count.

Table 8 (off/flow)/stock June-July 1985

	Males	**Females**	**All**
Borders	15.6	14.8	15.3
Central	10.4	12.2	11.0
Dumfries & Galloway	10.3	13.5	11.4
Fife	10.1	12.1	10.8
Grampian	17.7	14.5	16.4
Highland	12.5	13.1	12.7
Lothian	8.8	12.3	9.9
Strathclyde	8.0	11.2	8.9
Tayside	10.4	11.2	10.7
Orkney	10.8	13.4	11.6
Shetland	18.8	16.2	17.8
Western Isles	13.9	11.6	13.3

Source: Department of Employment

However, important these factors are, it is still likely that the increase in part-time female employment mentioned above has had some impact. Although the above observations imply that male unemployment, and especially long-term unemployment is the major problem, female unemployment remains a source of concern.