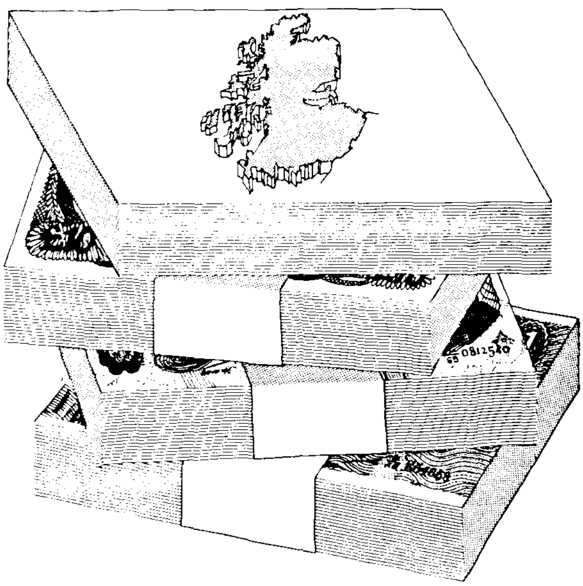
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

Together, the Scottish Chambers' Business Survey (SCBS) and the CBI Industrial Trends Survey provide a reasonable guide to current and recent trends in the Scottish Economy. Both Surveys are conducted quarterly with results being derived from the members of the CBI and Scottish Chambers' of Commerce. While the two surveys are complementary in nature, there do exist important differences between them. Whilst the SCBS provides a geographical breakdown of responses, the CBI Survey provides information on trends by size of firms. The number of respondents to the SCBS is many times that of the CBI Survey and it covers not only manufacturing but also construction, wholesale distribution, retail distribution, financial institutions and tourism and leisure firms. Both Surveys were conducted during December 1990 and January 1991.

CBI Industrial Trends

Manufacturers' business confidence declined further in the four months to January, for the eighth survey in succession. Sharp falls were recorded in domestic and export demand and CBI respondents now face the weakest demand outlook since January 1983.

According to the CBI Survey business confidence over the prospects for industry has declined markedly - although at a slower rate than for UK manufacturing as a whole. The January Survey was the eighth successive Survey in which Scottish companies reported that they were on balance less optimistic. A balance of -42% of respondents reported to be less optimistic than was the case in October and compared to -37% in October and -11% one year earlier. Larger companies reported lesser falls in optimism than smaller ones.

Scottish manufacturers reported the sharpest fall in total demand since January 1983 with the continuing severe weakness in home markets being aggravated by another fall in export orders. A balance of -34% of firms reported a declining trend in the volume of new orders and a balance of -37% if respondents reported that total order books were below normal.

Respondents reported a very sharp reduction in the volume of output over the four months previous to the Survey. The balance of -23% was the lowest balance since January 1981 and compared with -9% in October and +14% one year previous to the Survey. During the current period, output is expected to fall again.

Respondents reported a decline in stocks following two successive surveys indicating a rise in stocks. A net of -20% of firms reported a decline in the volume of stocks, the lowest figure since October 1983. A further fall is expected in the next survey.

A shortage of orders and sales rose to 88% of respondents citing it as the main constraint on output. This is the highest figure since January 1987. Fixed constraints eased only a little and lack of plant capacity is still hindering the output of 19% of respondents. In contrast skill shortages eased markedly as a constraint since the October survey.

Investment intentions in plant and machinery further weakened with a balance of -25% of firms expecting to authorise less capital expenditure during the twelve months following the survey. This represented the weakest overall investment outlook for Scottish manufacturers since October 1982.

Increasing efficiency was the most important reason for authorising capital expenditure and was cited by 77% of firms. With demand and output falling sharply, only 20% of respondents mentioned expanding capacity as a factor behind new investment, down from 36% a year ago. Uncertainty about demand was the most important factor likely to limit investment spending, it rose in importance from being cited by 41% in October from 48% in January. Inadequate net return declined in importance as a constraint on capita spending. Against the background of high interest rates, the cost of finance rose in significance.

Fixed capacity remained, on balance, more than adequate to meet expected demand during the twelve months following the survey. Meanwhile, the proportion of Scottish firms reporting their present level of output to be below capacity rose from 44% in October to 52% in the January survey. The degree of spare capacity in Scotland remained less than in UK industry as a whole.

In line with October's expectations, respondents reported a marked fall in employment. A balance of -40% of firms indicated a declining trend in employment. This was the sharpest fall in employment since April 1983. Scottish firms expect a similar fall during the current four months.

The growth in average costs per unit of output slowed in the four months prior to the survey. During the current four months the rate of cost increases is expected to pick up sharply. In contrast, domestic prices remained stable at a moderate level. Respondents expect export price rises to pick up a little, but to remain well below last year's rate.

Once again optimism about export prices fell, but less sharply than in the October survey. In line with October's' expectations the volume of new orders fell during the four months prior to the survey. A further fall in export orders is expected. Export books were strengthened during the four months prior to the survey but were regarded as being below normal by a net of -22% of respondents.

The trade weighted value of sterling rose between the October and January survey periods, but despite the strong growth in unit costs, prices eased slightly as a factor limiting the ability of Scottish firms to win new export orders. It does however remain the most common constraint and was cited by 66% of firms. Political and economic conditions abroad continued to the second most cited factor. Export price growth picked up a little in the four months prior to the survey. During the current four months respondents to the CBI survey expect a sharp increase in export prices.

Scottish Chambers' Business Survey

Many of the respondents to the January 1991 Scottish Chambers' Business Survey (SCBS) were less optimistic than they were at the time of the October 1990 Survey. Business confidence in manufacturing, construction, retailing and tourism declined; with confidence in Construction reaching its lowest level since the Survey began in October 1984.

Retail distribution respondents to the SCBS were more pessimistic than they were in the previous Survey. A balance of optimism of -23% was returned, compared to -12% in the October Survey. All areas returned negative balances of optimism ranging from -50% in Edinburgh to -10 in Central Chamber of Commerce area. All areas were more pessimistic than they were at the same time one year previously except for Dundee which was at the same level.

The trend in sales for retailers remained fairly buoyant although had declined since the previous Survey. A balance of +26% of respondents experienced an increase in sales, however, a balance of -5% of respondents are expecting sales to decline in the current quarter. Only in Glasgow do retail respondents expect sales to rise.

Retailing firms in all areas, except Aberdeen, on balance experienced a decline in total employment. A net of -7% of firms reported a decrease in male employment and a net of 0% for female employment. Part-time and temporary employment had the only positive balances with +4% and +1% respectively, however, balances of -4% and -20% of respondents are expecting these categories to decline.

46% of retail distribution respondents attempted to recruit staff during the 3 months prior to the Survey and 21% of these experienced increasing difficulties with regard to recruitment. Most difficulties were experienced in trying to recruit professional and managerial, clerical and 16-24 year olds. Aberdeen and Edinburgh appeared to have least difficulties in recruitment.

Wholesale distribution respondents experienced a slight improvement in optimism. The balance of optimism rose from -12% to -6% Glasgow was the most pessimistic area with a balance of -24% of respondents claiming to be more pessimistic than they were 3 months ago. Investment intentions remained unchanged with a balance of +9 of firms expecting to increase investment in buildings during the current quarter.

Total employment in the wholesale distribution sector rose for a balance of +2% of respondents. Dundee, Edinburgh and Glasgow respondents all returned negative balances of -13%, -12% and -5% respectively. A balance of -1% of companies expect total employment to fall during the 3 months to March. Overtime working rose for a net of +7% of firms whereas short-time working fell for a net of -7% of companies.

47% of wholesale distribution respondents attempted to recruit during the 3 months to December and 15% of these firms experienced increasing difficulty in recruitment. The main areas of difficulty were in the recruitment of 16-24 year olds and clerical staff.

Construction respondents were less optimistic than was the case 3 months previous to the Survey. A net of -32% of firms were less optimistic compared to -18% in the previous survey. A net of -40% were less optimistic than they were at the same time one year ago. All areas returned negative balances of optimism. Aberdeen appears to be the most buoyant area with a balance of -12%.

As expected from the previous Survey there was a decline in the trend in construction orders with a balance of total new orders of -24%. Orders from central government sources declined from a balance of -43% to -48%, and orders from other public sector sources fell from -31% to -41%. The most significant result was the trend in orders from the private sector in which the balance fell from +5% to -20%. Only in Aberdeen was the trend in orders from the private sector positive with a balance of +9%. Orders from all sources are expected to decline during the current quarter; overall, a balance of -33% of firms expect total new orders to decline.

Construction firms, on average, were utilising slightly less capacity than they were at the time of the previous Survey; 81% compared to 83%. A net of -27% of construction firms were using less capacity than they were in the same period 1 year ago. The amount of work in progress declined for a net of -11% of firms in the 3 months to December compared to the same period one year ago and a net of -23% of respondents anticipate a reduction in the amount of work in progress during the current quarter. Investment intentions in buildings and in plant and equipment fell for a net of -22% and -16% of firms respectively.

Once again a general pessimism pervaded in all areas in construction employment except for Aberdeen. A net of -24% of respondents experienced a decline in total employment during the fourth quarter of 1990. In Aberdeen the trend for total employment remained positive at +8%. During the 3 months to December 46% of construction respondents attempted to recruit staff and 25% of these firms experienced increasing difficulties in recruitment. The main areas of difficulty were in trying to recruit skilled manual, technical and professional and managerial employees. A net of -18% of construction firms expect total employment to fall during the 3 months to March.

The balance of optimism for Scottish manufacturing firms was negative for the eighth Survey in succession. The balance of optimism among manufacturing respondents fell from the already low figure of -19% to -25%. All areas returned a negative balance ranging from -40% in Edinburgh to -12% in Glasgow.

All manufacturing sectors returned a negative balance of optimism ranging between -41% and -5%. These figures are: textiles etc. at -41%; paper printing and publishing at -41%; miscellaneous manufacturing at -41%; metal manufacturing at -25%; other engineering at -25%; chemicals at -21%; mechanical engineering at -21%; electronics at -19%; and food, drink and tobacco at -5%.

Total demand, on balance fell during the fourth quarter for manufacturers. The trend in Scottish orders fell from a balance of +5% to a balance of

-9%; similarly, Scottish sales declined from a balance of +7% to -9%. Orders and sales from the rest of the UK declined significantly; orders from +10% to -20% and sales from 0 to -20%. Exports orders and sales, traditionally more buoyant, also returned negative balances of -8% and -2% respectively. Export orders and sales are expected to increase during the first quarter.

The factor most likely to limit output during the first quarter continues to be orders or sales, cited by 62% of manufacturing firms compared to 32% in the previous Survey.

Stocks of finished goods declined slightly from a balance of +3% to +1% of firms reporting an increase, however a balance of -4% of firms expect them do decline during the current quarter. Both stocks of finished goods and stocks of raw materials have declined for a net of companies and are expected to continue to do so.

Manufacturing firms, on balance, authorised less capital expenditure on both plant and machinery and buildings during the fourth quarter. A net of -6% of firms reported a decline in investment in plant and equipment and a balance of -10% reported a decline in investment in buildings. Increasing efficiency was the most frequently cited reason for the authorisation of new capital expenditure.

Manufacturing employment, on balance fell during the three months to December. A balance of -5% of firms reported a decline in total employment. Male employment fell from a balance of +3% to -5% and female employment from +4% to -7%. Firms expect employment in all categories to continue to decline. A large decline is expected in temporary, sub-contracted, and self-employed employment.

34% of manufacturing firms increased wages during the 3 months to December. The average wage increase was 10%.

50% of firms attempted to recruit in the fourth quarter and of these firms 19% experienced increasing difficulties in recruitment. Of those that attempted to recruit skilled manual workers, 45% experienced increased difficulty.

Financial institution respondents reported an upward trend in both personal and corporate advances; this was true in all Chamber of Commerce areas. In the corporate sector, acquisition of working capital remains the primary motivation for borrowing. Borrowing for reasons of investment remains in decline with advances for buildings and plant and equipment returning balances of -24% and -29% respectively. Financial institutions expect working capital to remain the only positive trend. All sectors and all areas experienced an increase in demand for credit.

A net of -23% of financial institutions reported a fall in total employment; only in Aberdeen was the trend in total employment positive with a balance of +7% of respondents reporting an increase. Part-time and temporary employment represented the only positive trends with +2% and +6% respectively. Overtime working rose for a balance of 1% of financial institutions, although a balance of -21% of these firms expect overtime working to decrease.

23% of financial institutions attempted to recruit staff during the 3 months to December. 30% of these firms experienced difficulty in the recruitment of 16-24 year olds and 31% experienced difficulty in the recruitment of clerical staff.

The balance of optimism for tourism and leisure firms fell from +8% in the previous Survey to -19%. Edinburgh and Glasgow were the most pessimistic areas with balances of optimism of -45% and -31% respectively. Dundee and Aberdeen were the most confident areas with balances of +7% and +6% respectively.

Total demand rose for a balance of +23% of firms. Total demand increased in all areas except for Central Chamber of Commerce area. Demand from abroad fell from a balance of +28% in the previous Survey to +1%. The balance of total demand is expected to be zero during the current quarter. Demand from abroad is expected to decline for a net of -14% of respondents.

Total employment rose for a net of 1% of tourism and leisure respondents, although is expected to fall for a net of -17% of firms. Total employment fell in Dundee, Edinburgh and Glasgow for balances of -13%, -26%, and -8% of firms respectively. Balances of firms in Aberdeen and Edinburgh expect total employment to decline during the current quarter. 60% of tourism and leisure firms attempted to recruit staff during the three months to December and 37% of these firms experienced increasing difficulties. 56% experienced difficulties in the recruitment of skilled manual and 44% faced difficulties in the recruitment of part-time staff.

Compared to the same period one year ago a net of +10% of tourism firms increased their investment intentions. 65% of respondents cite a general lack of demand as the factor most likely to limit their sales during the current quarter.

Primary

AGRICULTURE AND FORESTRY

In the last issue of this commentary, the debate concerning subsidies to agriculture in world trade was discussed. The issue has not yet been resolved, with non-EC members in GATT arguing that the 30 per cent cut proposed in overall farm support over a ten year period within the EC states is insufficient.

A group of European economists, in a report to the European Parliament published in November 1990, have meanwhile argued that farm support cuts can benefit both farming and the rest of the European economy. It argues that cuts in the neighbourhood of those proposed by the community will expand world trade and raise world trade prices by 28%. At the same time, the transfer of demand (arising from reduced support costs of approximately £35 billion) can boost demand elsewhere in the economy, absorbing lost farm employment. The report recommends maintaining support specifically targeted at small and part-time farms, and paying farmers for the part they play in protecting the environment.

The United States, reacting to stalled GATT negotiations, is preparing to impose heavy duties - of up to 200% - on a range of EC agricultural and beverage exports. This may be just the first statement of position in a game of bluff to force the community's hand, but it may represent the start of a trade war which could have very damaging consequences if allowed to escalate.

In response to the external pressures for reform and to a belief that reform is desirable in itself, the EC has recently proposed the largest cuts in farm supports ever made. If realised, cereal prices would be reduced by 40%. Small farmers would be compensated, but large farmers only to the extent they take land out of production. Cuts in price supports for beef and milk are in the neighbourhood of 15% and 10% respectively. The purpose of the proposals is two-fold: to reduce over-supply, and to control support expenditure which is projected to grow at alarming rates, threatening to put the whole CAP into a crisis state. At the same time, importance of protecting small farms and the environment continues to be stressed in the scheme. Divisions within Europe are emerging between countries with farms of high average efficiency levels (such as the UK, Netherlands and Denmark), who stand to lose in relative terms and the other economies with lower average efficiency levels. But this distinction masks important divisions of interest within individual countries. Scottish farming may well benefit relative to the big cereal producing farmers of East Anglia, for example. France also contains a large diversity of farms in terms of size and efficiency levels.

At the time of writing, no agreement has been reached on these proposals. The British government and representatives of farming interests in the UK as a whole and in Scotland specifically have shown little support for the measures, even though all groups appear to accept the inevitability of the need for some reform.

Earlier issues of the commentary have pointed out the particular problem faced by Scottish wool producers. Unfortunately, these problems show no signs of abating in the short term. World demand slumped in 1990, while supply levels have continued to increase. At the Edinburgh wool sale in February 1991, two thirds of offered wool remained unsold, and prices remain at historically low levels. British wool is suffering in particular from the recession; the demand for carpets (which account for about 50% of British wool) has slumped with the slowdown in the housing market. Whilst wool producers have been partially insulated by guaranteed price support, the guarantee price is expected to fall this year, and will be eventually removed.

At the aggregate level, some idea of the consequences of farm problems is given by the fact that UK farm incomes fell by 14% in 1990 to £1.3 billion. This follows several years in which incomes trends have in general been adverse. Livestock farmers were particularly disadvantaged inl 990. The number of full-time farmers in the UK fell for the fifth consecutive year, down to 184,000 (a fall of 5,000 over the year). Farm indebtedness has risen by nearly half a billion pounds to £6.4 billion, with increased interest charges on this debt.

Recently released figures demonstrate that woodland and forestry is now Scotland's most widespread crop, covering more than one eight of Scotland's land area. Forestry expended in 1987 and 1988 by over 64,000 hectares mainly at the expense of grass and uncultivated land. Two thirds of the increase was in the Highlands and Strathclyde Regions.

Low altitude forestry schemes are now becoming more popular, with a reduced emphasis on traditional coniferous high land afforestation schemes. Low level diversified forestry is receiving encouragement from a number of environmental groups, including the RSPB and the Nature Conservancy Council. Such support will assist the development of "community forest" schemes and other lowland planting programmes being promoted by the government. One such programme - the Central Scotland Forest announced in January 1989 by Malcolm Rifkind - has failed to be initiated so far. The scheme involves planting 20 million trees over a 20 year period in the area between Glasgow and Edinburgh, and is envisaged as providing new recreation opportunities, new wildlife habitats, and hiding old industrial scars. Central Scotland Woodlands Ltd., established to realise the project, will not be able to commence planting until the 1991/92 winter season. Much controversy surrounds the scheme, and perhaps paradoxically, some environmental groups are concerned that the proposed coverage rate is excessive. Other aspects of the scheme - public ownership of land and interest free loans for farmers - are causing concern at central government level, with fears of dangerous precedent being established. We await further developments with interest.

Despite the recent enthusiasm for low level planting, the volume of new afforestation remains at an overall low figure. In 1990, only 12,000 hectares was planted, only half of that undertaken in 1989. The forest industry has clearly re-geared itself to a far lower state of activity since the fiscal changes of the late 1980s.

Footnote

1. "A Future for Europe's Farmers and the Countryside", Commissioned by the Land Use and Food Policy Inter-Group of the European Parliament.

FISHING

Serious reductions in the population levels of some major commercial fish species around British waters remain the most important problem for Scottish fishing interests. A measure of the extent of the problem is given by a European Commission estimate that 1990 levels of haddock stocks were just 12 per cent of their 1970 level. Many other species have also fallen dramatically in population size, if perhaps not as dramatically as in the case of haddock.

Economists view this situation as the outcome of a "common property resource" problem. No individual fisherman has property rights over fish stocks - for the fleet as a whole, within given territorial limits, the stocks are common property resources until harvested. However, each harvesting trip reduces the population available to others - the act of fishing imposes external effects or costs on others, for which no compensation is paid. In such a situation, there are no incentives to individual fishermen to conserve stocks, particularly whilst others are not doing so either. "Overfishing" is probable in these circumstances, because the individual fisherman does not take into account the full costs of his actions.

In response to overfishing (which has proceeded so far as to threaten to push populations of some species close to their biologically sustainable minimum), the European Community (EC) has been attempting, through its Common Fishing Policy, to regulate commercial fishing behaviour. For several years, quota agreements have been imposed by the EC after discussions within the Community. The 1991 quotas were announced in December 1990. EC research evidence led the Commission to argue that a 30% reduction in fishing would be necessary to stop a critical decline in North Sea stock levels. The total allowable catch, and quotas allocated to the UK, have turned out to be less severely reduced than the EC originally proposed, but they continue to impose modest reductions from already low catch limits. North Sea cod quotas are cut from 46,000 (1990 level) to 43,970 tonnes, and haddock quotas have been slightly reduced in the North Sea (but more so in West of Scotland waters, where the quota has been cut by 7,000 tonnes to 12,000 tonnes. However, for most other species, quotas have either been maintained at present levels, or relaxed somewhat.

Of more concern to Scottish fishermen in recent months have been two other issues. The EC had attempted to impose regulations on the mesh size of fishing nets. This was designed to reduce the proportion of young fish caught in nets. These plans have been shelved for the moment, amid a wealth of controversy. However, in February the scheme has been revised as part of a broader control scheme, and accepted as policy within the EC. From March 1991, skippers will have to choose between either leaving boats in port for eight consecutive days per month, or use nets with a diamond mesh minimum size of 110 mm (compared with present size of 90 mm).

The first option - withdrawal of fishing operations for eight days per month - has led to fears of increased risk of injury (as fleets may stay out in worse weather than previously deemed acceptable limits), and is open to criticism on the grounds of it being an economically inefficient method of regulating the extent of fish catches. What is quite clear is that fishermen will bring in lower harvests, and that their incomes may deteriorate sharply.

However, we have seen in previous issues that reduced harvests do not necessarily reduce fishing incomes, as there may be offsetting price increases. Figure 1 shows data for harvest quantities and prices for Scotland for the year 1990. This shows that the total value of landings in 1990 was £264 million, 7% higher than in 1989. In real terms (taking account of overall changes in average prices), the values of landings were approximately constant. This relationship is shown most strongly for the case of haddock, where a landings fall of 33% was accompanied by a price rise of 41%, with value of landings falling only modestly as a result. A similar pattern (but on smaller scales in terms of size of change) can be seen for mackerel, the most important fish in quantity terms to the Scottish industry.

The rising price of fish may insulate fishermen from the income collapse that would otherwise come from reduced catch volumes, but this section cannot conclude without observing that the preferred long term option should be to reduce the size of the fishing fleet, by offering suitable compensation. This will avoid the waste of resources with boats periodically tied-up in harbour. However, a scheme to reduce the fleet can only be politically acceptable if compensating employment opportunities are developed. There appears to be little prospect of this in the short term as British industry moves deeper into general recession.

Construction

The latest index of production and construction figures for Scotland show a 6.4% quarterly increase to stand at 108.4 for the third quarter of 1990. Comparing the latest four quarters with the preceding four quarters shows a 5.7% increase.

For the UK as a whole the third quarter of 1990 was down 0.8% from the previous quarter to 126.9 and showed four quarter growth of 2.1%. UK output reached a turning point in the first quarter of 1990 and has continued to decline as the recession deepened.

The third quarter increase for Scotland would appear to be counter-cyclical, but can be partly explained by the completion of new contracts obtained by contractors in the fourth quarter of 1989. This figure (Q4 1989) showed a rebound of 34.2% from a third quarter 1989 fall of 30.6% in all new work, the expected completion time of which could be reflected in the third quarter 1990 index of production and construction figure. The Scottish construction industry is not expected to show any marked improvement until the latter half of 1991.

The latest Scottish Chambers' Business Survey (SCBS) for the fourth quarter of 1990 shows that a net of -32% of respondent firms are less optimistic than they were in the three months prior to the survey. This is the lowest level of business confidence reported in the Scottish construction industry since the SCBS began. In the Central Chamber of Commerce area all (100%) of respondents stated that they were less optimistic than they were in the third quarter of 1990; even in the Aberdeen Chamber of Commerce area there was a net of -12% and this from the most optimistic area. As reported in the December 1990 Commentary, activity in Aberdeen is still declining, although falling from a higher position. However the figures for oil related construction are still helping to prop up the Aberdeen Chamber of Commerce area. In this sub-

FIGURE 1 FISH LANDINGS IN SCOTLAND : JANUARY TO DECEMBER 1990 - COMPARED WITH JANUARY TO DECEMBER 1989

	JAN TO DEC 1990			1990 AS % OF 1989		
	Weight Tonnes	Value £'000	Price £/T	Weight %	Value %	Price %
Landings by UK vessels						
Demersal	177,759	177,462	998	85	112	131
Pelagic	238,294	28,338	119	93	98	105
Shellfish	39,557	58,674	1,483	88	99	113
Cod	35,692	43,963	1,232	100	121	120
Haddock	46,263	55,871	1,208	67	95	141
Whiting	29,217	20,869	714	101	127	125
Saithe	10,032	4,593	458	100	114	113
Dover Sole	50	175	3,500	89	83	93
Hake	1,731	3,273	1,891	104	136	130
Lemon Sole	2,777	4,731	1,704	116	129	111
Ling	2,838	2,468	870	80	119	148
Megrims	2,453	3,380	1,378	97	124	128
Monks	8,847	18,825	2,128	106	123	116
Plaice	6,445	5,428	842	106	138	131
Skate	3,421	2,211	649	89	111	125
Sandeels	17,004	769	45	69	81	117
Dogfish Spur	5,476	4,852	886	94	117	125
Witches	2,185	2,229	1,020	96	126	131
Mackerel	136,990	16,831	123	91	95	104
Herring	93,515	11,022	118	98	104	105
Brown Crabs	4,032	3,046	755	75	78	104
Green Crabs	286	126	441	64	68	107
Velvet Crabs	1,292	2,368	1,833	82	79	97
Lobsters	684	5,545	8,107	90	82	91
Pink Shrimps	366	388	1,060	63	56	88
Squid	1,428	1,584	1,109	74	63	86
Scallops	4,171	7,238	1,735	89	94	105
Norway Lobsters	16,904	35,182	2,081	94	114	122
Queen Scallops	5,097	1,720	337	100	102	102
Periwinkles	1,454	759	522	61	67	100
Total by UK vessels	455,609	264,475	580	89	107	120
Landings by foreign vessels	13,370	3,134	234	64	89	140
Total landings in Scotland	468,979	267,609	571	88	107	121

Source: Scottish Office (February 1991)

sector a balance of +33% of respondents were more optimistic about the general business situation in the fourth quarter 1990 than was the case in the previous quarter. The actual trend in new orders was up for a balance of 33% of respondents however the expected trend was down for 20% of respondents, but still showed a net balance of +20%.

All Chambers reported a net of -24% for the trend in new orders. The worst affected was public sector new orders but private sector new orders were still down for a balance of -20% of firms. The actual trend in total employment was down for a net of 25% of firms. The only positive balance coming from the Aberdeen Chamber of Commerce area (+8%) with net increases in full-time male employment. Salary increases for all Chambers averaged 10.0% and training is to increase for 21% of respondents. Of the 46% of firms recruiting 25% were experiencing increased difficulties.

The expected trend in new orders for the first quarter of 1991 shows a net of -33% with the largest net decline in new orders from central government (-52%). The expected trend in total employment is everywhere negative with the exception of the Aberdeen and Fife Chamber of Commerce areas. All Chambers exhibits a net of -18% for total employment; for Central alone this figure is -40%, however Fife (although showing a zero balance), expects increases of 25% and 50% in part-time and temporary work respectively. The only other positive figures are from the Aberdeen Chamber of Commerce area where total employment is expected to increase for a balance of +8% of firms reporting. In the Aberdeen area male and full-time employment are expected to increase (both showing a balance of +8%) whilst the expected trend in temporary and self-employed are expected to show net falls of -20% and -11% respectively. Expected sub-contracting employment in Aberdeen gives a net of +16% whilst the corresponding figure for the Central Chamber of Commerce area is -80%.

The Construction Industry Directorate Statistic Division (CIDSD) at the Department of the Environment's quarterly analysis of contracts obtained by contractors in the building industry shows that, whilst total public sector new work in Scotland was up by 31.6% when comparing Q3 1990 with Q3 1989 the total of all new work (public and private) was down 7.9% to £479 million. Whilst Scottish public sector non-housing work grew by 60.5%, the government induced downward trend in public sector housing continued with a fall of 48% (Q3 1990 on Q3 1989). In perspective, Scottish public sector housing accounts for only about 3.3% of total new orders, compared with 5.8% in 1989 and 12.45% in 1982; £16 million in the third quarter of 1990. Scottish private sector commercial and industrial new work showed falls (Q3 1990 on Q3 1989) of 7.1% and 1.5%, respectively.

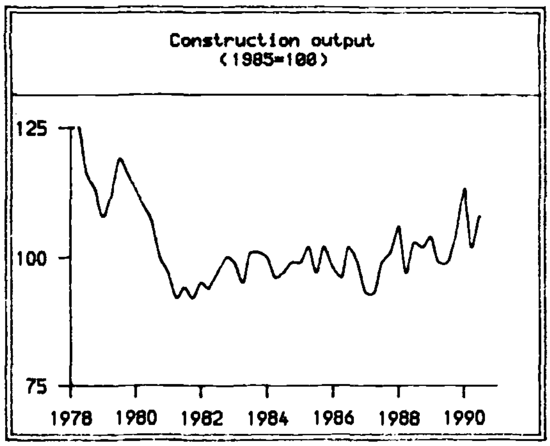
In Great Britain as a whole total public sector new work for the third quarter 1990 was up £107 million to £1485 million on the previous quarter, it was down 11.61% on the same quarter in 1989. Private sector work over the same period was also down by 17.17% giving a total fall for all new work of 15.70%.

The NHBC private house building statistics show that GB private house building starts for 1990 were 128,800. This figure is 21% down on the 1989 figure. Completions (GB) were also down in 1990 by 17% to 154,500. The Scottish figures show that private housing starts fell by 11.64% in 1990 to 12,900 and completions were down 13.7% to 12,600. These figures reinforce the view that the recession is now hitting as hard in Scotland as it is in the South. Also, because Scotland did not experience the level of overheating experienced in the South East the fall will not be as hard. This latter point is further reinforced by Scotland's lower per capita indebtedness and lower house prices.

The regional pattern of housing starts show that whilst Grampian housing starts were up 31% on the year (1989 compared to 1990) to 1,720, Lothian and Strathclyde fell by 34% to 1,590 and 19% to 5,620 respectively.

The Nationwide Anglia's quarterly review clearly shows the variations in house price changes. By the end of 1990 ten of the thirteen regions analysed showed annual falls. These falls ranged from 3.9% in Scotland and 4.4% in the West Midlands, to over 15% in the South East, East Anglia and Yorkshire and Humberside. There were modest rises in the North West (+6%), Northern Ireland (+3%) and the North of England (+0.6%). It is anticipated that prices will start to rise again in mid 1991 with London and the South East leading the increases. Scotland and the other regions are likely to lag behind throughout 1991.

Looking at the growth in the average price of a modern semi-detached house over the last 15 years for the 13 UK regions clearly shows how Scotland has under-performed the rest of the country. The UK total increase is 431.9% from £10,690 in Q4 1975 to £56,857, with the Outer Metropolitan area going from £13,930 to £78,080 an increase of 460.5%. Scotland's performance leaves it languishing in second bottom place with increases from £11,510 in Q4 1975 (which was the fourth highest regional price) to £44,235 (11th place) in Q4 1990 an increase of only 284.3%.



The UK construction industry is set to lose around 100,000 jobs in the next 12 months according to the latest quarterly review by the Building Employers Federation (BEF). They have called for an immediate cut in interest rates of 2% and the bringing forward of work on public projects like schools and hospitals. It is not just small or newly established companies that are going to the wall, but older established and large companies face the chill blast of recession as well. Only a fifth of the 600 firms questioned by the BEF were working at full capacity in the fourth quarter of 1990. A sixth were working at less than half capacity and a worrying three quarters said that the amount of work they had in hand was falling. Tender prices are being cut to the bone and there are reports of zero margins on some contracts which is folly indeed.

Six Scottish local authorities are to benefit from an additional £825,000 housing capital allocation in the current year. This is however not "new" money as it comes out of allocations from other authorities which have been, according to James Douglas Hamilton MP, Scottish Office Minister for the environment, "unable to utilise fully the resources available to them".

Energy

OIL AND GAS

According to the Royal Bank of Scotland/Radio Scotland Index, UK oil production in December averaged 1.74 mbpd, 9.3% lower than in November. The primary factor leading to the fall in production was very poor weather offshore, which reduced both pumped and tanker upliftings. The lower volume, coupled with a weakening in the dollar oil price, yielded an average daily December production value of £25.3 million, compared with £31.6 million in November.

Over 1990 as a whole, average daily oil output from the UK Continental Shelf was 1.88 mb which, though only 30,000 bpd higher than in 1989, represented the first increase in annual output since 1985.

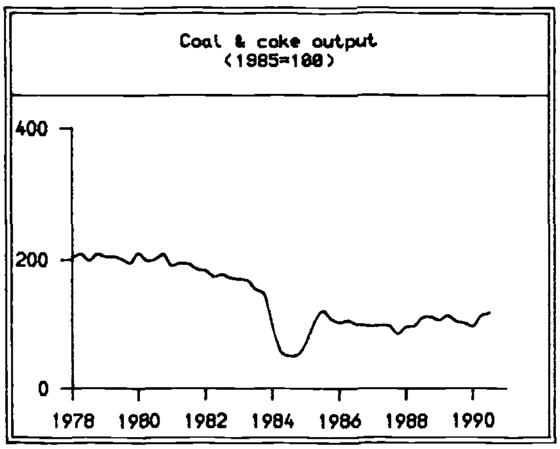
Oil prices continued to show significant volatility in reaction to, and in anticipation of, changing circumstances in the Gulf. Trading at over $25 pb in early January, the price of Brent crude had fallen to around $16 pb towards the end of February. The outbreak of hostilities actually led to an easing of prices, presumably reflecting the fact that the market, having previously absorbed the loss of Iraq/Kuwait output, was comforted by the lack of immediate disruption to other Gulf supplies.

In the absence of additional supply disruption, oil market fundamentals are also operating in favour of lower prices. OECD oil consumption dropped by 5% in the last quarter of 1990, according to the International Energy Agency, who also predicted its members would demand 38.3 mbpd in the first three months of this year, 0.5% less than in the equivalent period in 1990. In January, Western oil stocks were an estimated 467 million tonnes - the highest level for nine years. Additionally Iran and Saudi Arabia have stocked 70 million tonnes in tankers outside the war zone. The operation of the war will have caused a sharp increase in demand for aviation fuel in particular, but this will have been partially offset by reduced demand from civil airlines.

Thus, as long as oil demand and production remain broadly in balance, these stockholdings constitute a massive supply "overhang", the existence of which must tend to have a depressing effect on prices.

ELECTRICITY, COAL AND NUCLEAR

Although Scottish electricity privatisation is not due until May or June of this year, the flotation of the power generating companies in England and Wales effectively marks the transition to a privatised industry. In the absence of a government energy policy, the new companies will have a critical influence over the Scottish coal industry and, through competition, over the external activities of the Scottish integrated electricity companies.



The future of the Monktonhall Colliery is to be reviewed in June, the options being to maintain its present care and maintenance basis, to close the pit permanently, thus losing 100 million tonnes of coal reserves, or to resume coal production. Although a campaign has begun to promote the latter option and surveyors Coal Information and Consulting Services consider that a financial case for production exists, the wider outlook for the coal industry remains fairly gloomy.

This is underlined by the purchase of two shipments, each of 27 KT, of South African coal by Northern Ireland Electricity. The deal occurred despite the favourable rates NIE receive for Scottish opencast coal: £31.90 per tonne as opposed to over £42 per tonne as paid by the large coal users.

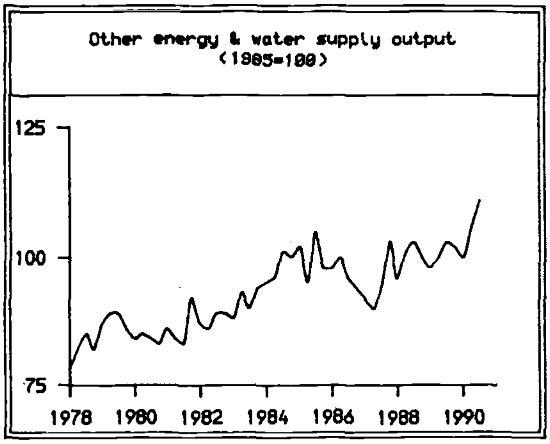
The long-awaited five year agreement between British Coal and Scottish Power was signed at prices similar to those obtained by the power generators in England and Wales. It provides for 2.5 million tonnes of coal to be supplied in each of the first three years and 2.0 million tonnes thereafter. The deal secures Longannet mine. Talks between the two organisations will follow concerning the operation of Longannet and Cockenzie power stations. The latter has recently been re-opened, presumably as a result of the growing trade in cross-border electricity.

The private sector has also become interested in the Scottish coal industry. Energy Europe, incorporating Moray Firth Exploration, is to undertake Scottish offshore coal exploration. The wisdom of maintaining a UK coal industry in the face of low international prices has been underlined by British Gas' 35% rise in the price of gas supplied to power stations from 2 March. This was brought about by concerns over BG's ability to supply the large number of gas turbine plants being projected. While BG is not a monopolist supplier of gas to power stations it dominates the market. Inevitably, a number of the gas turbines projects will now be shelved. "Neptune", the Teesside 1000 mw combined cycle station is an example of such a projected station. Hydro-Electric plc are involved in the plant, together with Northern Electric. BOC withdrew from the consortium prior to the gas price rise.

The change in gas prices came after the publication of a feasibility study into a project to lay a power transmission cable between Scotland and Iceland. The 600 mile cable would have a capacity of 2000 mw and cost £2.5 billion. Onward supply to England is an integral part of the project. Since the power would be produced by hydro-electric and geothermal means in Iceland, it would greatly assist the greenhouse gas limits that will come into effect in 2005. The project was seen as competitive against nuclear power and new gas turbine stations. Glasgow University and the Icelandic National Power Company produced the feasibility study for the project, which was a gestation period of 7-10 years.

In the short term, large electricity users face a price increase of 20% to 25% as the traditional cross subsidy from domestic consumers is brought to an end. In addition, transmission charges are being increased by 15% and distribution charges by more than the rate of inflation. In England and

Wales, the 1992 nuclear levy has been set at 11%, higher than expected. The reaction to this by the Southern generating companies has been a request to the regulating authorities to increase the amount of electricity they can supply directly within each of the distribution companies' areas. However, Scottish Power consider that sales to the electricity "pool" operating in England and Wales and options contracts are more profitable than direct industrial sales south of the border.



The industry regulator, Offer, are setting national standards of performance for distributors. Where appropriate, companies also are being given specific standards, for example in the length of time it take to reconnect consumers after supply has been interrupted by the weather.

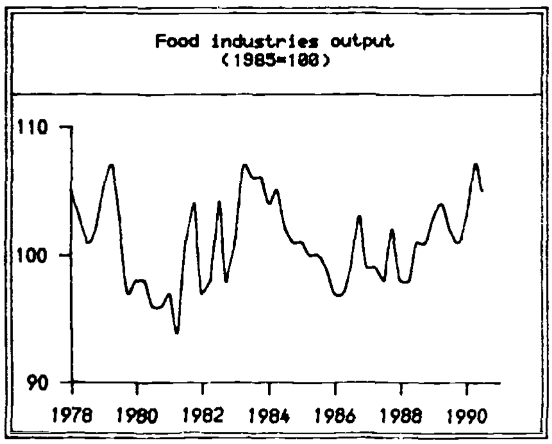
In the nuclear section of the industry, Nuclear Electric Ltd, which operates in England and Wales, wish to hive off their decommissioning operations to a separate company. This would allow them to highlight their operating nuclear plant activities. At present, the company has £4 billion of provisions for decommissioning costs, while the difference between the company's operating profits and its overall loss accounted for £640 million last year. Most of this was due to decommissioning costs: the reorganisation could relegate them to a footnote in the accounts. Scottish Nuclear Ltd faces broadly similar conditions. BNFL, the operator at Sellafield, have been undertaking a search for sites for 1500 mw PWR reactors. An initial study has reported that Chapelcross in Scotland, already a nuclear site, is appropriate.

Radiation at the perimeter fences of a number of English Magnix stations have reached up to 20 times the maximum public dose. This may have implications for the proposed recommissioning of the Hunterston A reactor.

Manufacturing

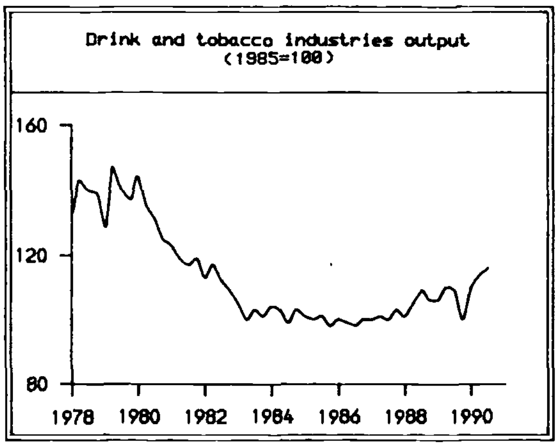
FOOD DRINK AND TOBACCO

The index of production for the Scottish food industry stood at 105 in the third quarter of 1990 (1985=100), a slight fall on the second quarter's level but 2% up on the corresponding quarter in 1989. The Scottish index is now running at a level very comparable to that of the UK as whole. Looking at a longer time horizon, it should be pointed out that, with the exception of quarterly fluctuations, output of the food industry in Scotland has been virtually static since 1983.



The drink and tobacco index has shown steady growth in recent quarters, and the third quarter was no exception. In the three months to September the index stood at 116, 1.7% higher than the second quarter and a rise of 6.4% over the third quarter of 1989. In 1990 the Scottish drink and tobacco index overtook that of the UK for the first time since 1985, presumably largely due to the huge rise in whisky output over the last two years (see whisky section).

More up-to-date information can be gained from the Scottish Chambers' Business Survey for the fourth quarter. Food drink and tobacco firms showed a slight negative balance (-5%) on the question of optimism compared with the previous quarter, and a rather larger negative balance (-14%) on optimism compared with one year ago. This is rather a contrast with the relatively buoyant air of the third quarter survey, and is not reflected in the figures for new orders. A balance of 38% of respondents reported increased new orders in the final quarter, with Scottish, UK and export orders all having healthy positive balances. Expected orders for the first quarter of 1991 show a lower positive balance of 18%, with all sectors of the market again expected to show increases.



Investment intentions may also be looking up slightly, with a net 18% and 8% expecting to increase their level of investment in plant and equipment and land and buildings respectively. It should be pointed out, however, that in both cases the vast majority of respondents anticipated no change. This was also the case for employment, but of those companies which did experience a change in employment in the final quarter the balance was upwards (+16%). Interestingly, however, a balance of 5% of responding companies anticipated reduced employment in the first quarter of this year.

Rather depressingly, most of the company news in the last quarter in the food industry has been about plant and company closures. Perhaps the saddest was the news of the receivership of Forth Valley Foods of Bathgate, formed from a management buyout following the closure of Golden Wonder's factory in Broxburn. Forth Valley, which employed 100 people, was best known for its dramatically-flavoured Highlander crisps, and had also launched a series of imaginative snack foods into the Scottish market. Unfortunately, the company failed to achieve the necessary level of sales to assure its survival. All is not lost, however; at the time of writing Bensons Crisps of Preston are reported to have made a bid for the company. It is to be hoped that Forth Valley can be retained as a going concern, but it does seem to be a pity that another little bit of corporate control may now slip from Scotland's grasp.

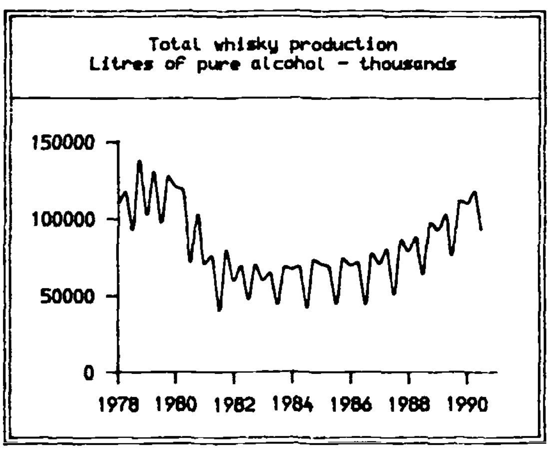
Ross Young, the frozen and chilled products division of United Biscuits, is to close its Bonnyrigg sandwich-making operation next month and transfer production to Luton. Around 230 workers will be made redundant. The company argues that plant rationalisation was necessary and that Luton was a more convenient site for access to the major UK markets. Another major UK food company, Rank Hovis McDougall, has also made some of its Scottish workforce redundant. The flour mill at Leith has closed with the loss of 158 jobs. According to RHM the Leith mill was the most costly of the company's twelve mills, and it had to be closed as a result of falling demand and excess capacity. There is apparently no threat to the 26 jobs at the company's mill in Glasgow.

In February yet another closure took place, that of Hillsdown's fruit and vegetable canning factory in Montrose. The problem here lies not simply in the job losses which will occur, but because of the factory's long-term links with the numerous growers of soft fruit and vegetables in Angus, around 40% of whom it is estimated will be affected by the closure. Soft fruit growers are already experiencing stiff competition from Eastern European producers, and the closure of the local canning outlet may suggest to some growers that there is little point continuing in the business. There are already indications that some vegetable growers in the region are considering moving into other areas of production

Another closure of a different kind has also been announced. Scottish Food Promotion, formed in 1987 to do the job which its name suggests, closed in January because it had insufficient funds to do its job effectively. Formed in 1987, initial backing for the organisation came from the SDA, HIDB, the Scottish Milk Marketing Board, the Scotch Quality Beef and Lamb Association, the Scottish Salmon Board, and numerous private companies. The company sector never really filled the gap left as SDA money was gradually withdrawn, and it seems to be the case that many in the food industry, especially producers, favoured more specific initiatives rather than the more generic Scottish food promotion which the organisation sought to achieve. At a time when the UK is running a £5 billion trade deficit on foodstuffs, half of which is accounted for by items such as beef, cheese and vegetables which Scotland is more than capable of producing in high quality, it certainly seems that more active promotion of Scottish produce would be beneficial.

WHISKY

In 1990 exports of Scotch whisky earned over £1.7 billion, an increase in nominal terms of 17% on the 1989 figure. This is an impressive performance, and one which deserves to be applauded. However, while margins and export profitability remain high, it should be pointed out that 1990 was the second successive year in which the volume of exports declined, on this occasion to 238.3 million litres of pure alcohol (LPA). The Scotch Whisky Association argues that this is accounted for by a continuing fall in bulk exports of blended Scotch, where the value added is considerably less than in bottled-in-Scotland (BIS) blends. It is certainly true that bulk blended exports have fallen steadily, and the 1990 level of 33.8 million LPA is little over half the level of the early 1980s; but that is not the whole story. Shipments of BIS blends, the mainstay of the industry, also fell fractionally to 170.2 million LPA, the first decline in the last seven years. In addition, BIS malt whisky exports experienced their smallest rise for over a decade, an increase of 1.6% to 8.8 million LPA.



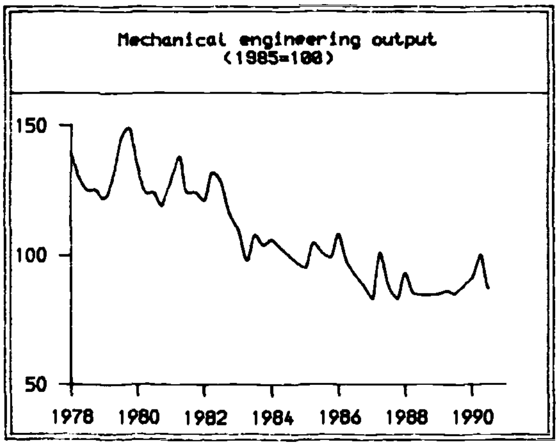
None of this might be of great importance if producers were behaving as if there was a modest recovery under way in the industry, but the dominant feeling appears to be one of making the most of a boom. Production of whisky in the third quarter totalled 93.8 million LPA, more than 21% higher than the corresponding period in 1989 and the highest third quarter production figure since 1979. We are now producing almost double the amount of whisky which we did eight years ago (when the industry was in the depths of recession), but we are exporting only 16% more BIS blends than in 1983 and only 5% more overall. In addition, the home market continues to decline. UK consumption of Scotch whisky fell by 3.5% in 1990 to 41.5 million LPA, and production exceeded total consumption in 1990 for the second successive year. As previous Commentaries have stressed, the industry has changed out of all recognition in the last six years, and is in much better shape than it was a decade ago; nevertheless, one does rather wonder what is going to be done with all this whisky.

In the short term, however, there is every sign of individual companies continuing to prosper from sound management and the pleasing profit margins which the industry is currently achieving. A good example is Whyte & Mackay, whose purchase of brands from Distillers during the Guinness takeover has proved to be a very astute piece of business. In the last sixteen months the company has changed hands twice and seen a management buyout falter at the last moment, but still managed to turn in impressive figures for 1990. In the eleven months to the end of November pre-tax profits rose to £17.5 million on a turnover of £151.6 million. Particularly impressive, in the light of overall whisky exports, was the news that Whyte & Mackay's exports by volume rose by 14.7% during the year, with Japan and the Far East proving particularly profitable.

MECHANICAL ENGINEERING

The recession has finally hit the Scottish mechanical engineering industry. However, recent indicators appear to show that there are some healthy short-term trends. This view is supported by some results from major firms. In the medium term, the lack of skilled labour remains a potentially serious threat to the industry.

The Index of Production for Scotland showed a 14% 1990 third quarter decline from the previous quarter's industry output. However, this is relative to an outstandingly good result for the second quarter and leaves output marginally higher than the 1989 average. The more reliable twelve month figure shows growth at 7%. Employment in the metal goods, engineering and vehicles division grew by 1.2% in the quarter to September 1990. This apparent conflict with the output figures is reflected at the aggregate manufacturing level: a good reason to treat both sets of data with some caution. The year on year employment growth is 2.4%.



The Fraser of Allander / Scottish Chamber of Commerce Business Survey for the fourth quarter of 1990 shows a negative balance with regard to general business conditions and to new orders. Similarly, capacity utilisation has fallen from 83% to 80%. Nevertheless, a closer examination appears to support the relative optimism of the official statistics. In particular, there remains a positive balance for both export orders and export sales, despite the high level of the pound. The export expectations for the first quarter of 1991 were also positive, though less strongly so. The implication is that the Scottish industry is increasingly able to compete in international markets and is held up within the UK by the lack of domestic demand.

Investment responses in the survey are positive for plant and machinery, negative for land and buildings. The two most important reasons for investment were given as capacity expansion, despite its presence as the major constraint on output, and increasing efficiency.

Training remains the biggest worry for the industry. The employment figures appear to corroborate the official statistics but further evidence of an impending skills shortage is appearing during a recession. Firstly, skilled labour remains the second most important constraint on output. Secondly, recruitment difficulties persist for technical and skilled manual labour. For the second quarter in a row, the balance of opinion is that these difficulties have increased. Labour shortages are not currently causing inflationary wage settlements but unless they are dealt with, this can only be only a matter of time. About a third of firms are increasing training provision, an unchanged figure from the previous quarter. Since the recession will inevitably shake out some employment, further labour shortages may not become immediately apparent. If firms take advantage of this not to increase training, Scottish competitiveness could rapidly be lost during the next upturn.

Firm results in the mechanical engineering industry are very mixed. One firm that has not had a good outcome is Howden. Pre-tax profits in the first half of 1990-91 were down from £7m to £0.2m, after allowing £6.6m for closures and redundancies. While the suspension of the Iraqi power station contract, other events connected with the Gulf War and the collapse of the plans to sell the Glasgow headquarters site have had an impact, the major reason is the Danish Great Belt tunnelling project. Losses from this order stand at £6m. There are also possible considerable further losses involved, although Howden's are also taking legal action to reduce their loss. The remainder of the firm has healthy order books and turnover is up 17.5%. Nevertheless, the ensuing squeeze caused the closure of the Renfrew manufacturing facility, with the loss of 500 jobs. Some of these staff, together with ex-Yarrow employees, have now found contract employment at John Brown Engineering.

Anderson, the mining equipment manufacturers, have also seen a decline in profits, from £3.2m to £1.2m. This is partly due to the high pound-dollar exchange rate and partly due to a decline in orders from British Coal, who are apparently now taking a more discerning view of asset management. The company's strategy is to focus production on their main longwall equipment plant in Motherwell, which presumably means job losses will be concentrated elsewhere. The firm's parent company is enjoying improved performance.

In contrast, Babcock are currently performing well. Turnover has increased by 19% to £352.1m and profits stand at £21.4m. This includes a £1.8m provision, largely to cover 200 redundancies, many of which were in Renfrew. The Energy Division, which includes the Renfrew plant, enjoyed a 10% increase in turnover to £74.2m. However, divisional profits fell 49% to £2.9m due to the firm's position in the order cycle.

The Renfrew facility has won a £12m contract for heat-recovery steam generators for a 360KW combined cycle power station in Corby, England for an independent generating consortium. This is similar equipment to that being supplied to PowerGen for its Killingholme power station. The redundancies already mentioned followed the freezing of Babcock's £158m section of the Iraqi power station contract. However, all work performed had been paid for and the new work has reversed the fall in employment. Currently, 350 are employed at Renfrew, with an expected increase of 50 by September.

Babcock is the joint manager of the Rosyth naval base with Thorn EMI. The first half report shows a small profits decline, a result of less submarine work. This has now been reversed, with considerable Gulf-related activity. However, the longer term future of the base has been called into doubt.

The Weir Group have announced a £7m investment programme, the strategic aims of which are to increase machine tool capacity, reduce production costs, improve delivery times and enhance product quality through superior technology and design. Within this, Weir Pumps of Cathcart will be investing £2.5m in a flexible manufacturing system. Weir have purchased a further two firms, in the USA and Australia, for a total of £3m.

Strathclyde Fabricators, a precision engineering and sub-assembly firm which supplies the electronics industry, have announced a £1.5m investment project. This entails concentrating their existing three sites in a new Hamilton facility. This will enable the firm to enter new markets, such as fabrications for computer mainframes. Existing employment is 180, which is envisaged to increase by 80.

Brown Brothers, a Vickers subsidiary in Edinburgh, employing 325, have won a £10m order for the Australian and New Zealand navies. This involves ten sets of frigate steering and stabilisation gear, with an option on two further sets. This project secures employment for eighteen months at a time of declining military orders.

ELECTRONICS

Recently published figures for the third quarter of 1990 Index of Production show a very sharp fall to 126 compared with a Q2 figure of 162 (1985 = 100), a fall of 22%. Corresponding UK output fell in the same period by only 3%. To some extent, the Scottish figure reflects revised data, but it is impossible to determine the extent to which this is responsible for what would be a very severe downturn in electronics (although similar quarterly changes have also been seen in recent times, for example in 1988, when the index fell by 15% between Q3 and Q4). Evidence that the above is more likely to be in the nature of a blip, whatever the reason, is that the index increased by 10% in the year until Q3 1990 compared with the previous year, the highest increase recorded in any sector.

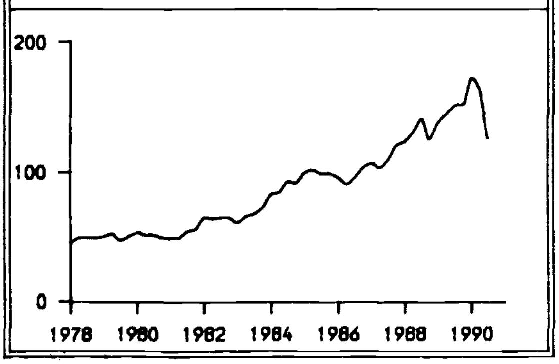
The Scottish Chambers' Business Survey results for the quarter preceding February this year indicate, however, that the industry is going through a fairly flat period. 100% of respondents in electronics reported a level trend in sales and 100% reported that this was expected to continue over the next three months. On average, companies were running at 75% of capacity, a reduction on the previous level for 40% of companies (although 29% reported increased capacity utilisation). 73% of companies also believed that lack of orders was likely to be the most important factor constraining sales over the short-term, although 53% also reported difficulties in recruiting technical staff.

There has also been some evidence of difficulty in the company sector. Employees at Exacta Circuits, the Scottish-owned printed circuit boards (PCB) manufacturer which employs 800 people in Selkirk and Galashiels, recently voted to accept a 15% reduction in pay in order to prevent redundancies, believed to involve up to 100 jobs.

This is the second major action taken by Exacta in response to falling demand for PCBs, with 100 jobs already having been lost in 1990. Exacta has until recently been a very successful operation since its formation as a result of a management buy-out in 1986, acquiring another PCB company, BEPI, in 1989.

Similar problems of falling demand have also affected another important Scottish-owned manufacturers, Rodime of Fife, which has now transferred the last of its manufacturing of disk-drives to Singapore in an effort to reduce costs. 95 jobs have been lost at Glenrothes as a result. This further attempt by Rodime to work its way out of its recent problems (discussed in various recent issues of this Commentary) by repositioning itself as a low-cost volume manufacturer is a significant change from its previous innovatory stance, when it was founded to exploit its own invention, the three and a half inch disk drive. Somewhat ironically,the importance of leading edge technology in disk drives is currently being demonstrated by the American company Conner Peripherals, whose strategy strongly emphasises innovation design. Conner, whose Irvine factory employs 400 people, recently announced that its world-wide sales in 1990 increased by 90% on the previous year, reaching $1.34 billion. The Irvine factory is expected to generate £75 million of revenue in 1991.

Electrical and instrument engineering output (1985=100)



Bull, the French state-owned company which formerly jointly operated the mainframe manufacturing site at Newhouse with Honeywell, is to centralise its Scottish operations at a new site in Livingston. The move will also involve the phasing out of mainframe manufacture at Newhouse (and indeed in Scotland), as the company restructures it product base towards software and systems integration. Bull is restructuring all of its world-wide operations in this fashion and expects to shed about 5,000 jobs over the next two years. The establishment of the Livingston facility will generate some new employment, but total company employment in Scotland will remain level at 300 because of the loss of manufacturing at Newhouse.

Finally, there is further evidence of increased Far-Eastern interest in Scotland with the announcement that the Japanese floppy disk manufacturer YE data is to set up a plant in Cumbernauld, which will become the first UK location to produce floppy disks. Total investment will be £4.8 million and the plant is expected to employ 120. Recent months have seen a minor wave of Far-Eastern investment in manufacturing in Scotland, such as the Taiwanese company Delta's decision to produce power supplies at Inchinnan, the Ankor/Anam takeover of Iteq at Irvine and Oki's decision to add the production of facsimile machines to its product range, also in Cumbernauld.

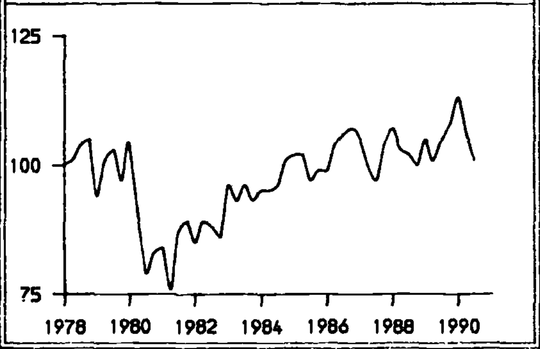
CHEMICALS AND MAN-MADE FIBRES

Output in this sector continued to fall in the third quarter of 1990; down 5% to an index of 101, scarcely above the base year level of 100 in 1985, according to the latest index of production and construction figures for Scotland. The third quarter figure for the UK as a whole was also down 2% to stand at 117. Addressing the latest four quarters on the preceding four quarters shows that Scottish output has grown by 5% while UK output has increased by only 1%, however, both Scotland and the UK have been declining since the first quarter 1990 high point.

The latest Scottish Chambers' Business Survey (SCBS), for the fourth quarter 1990 shows a net of -21% of firms are less optimistic about the general business situation in the chemicals sector than they were in the previous quarter. A net of -48% of respondents are less optimistic when compared with the fourth quarter 1989. The total volume of new orders is down for a net of 5% of respondents, however, Scottish new orders were up for a net of 26% but new orders from the rest of the UK and Export orders were down for nets of 11% and 6% respectively. The weakness of the dollar and the sickly performance of the yen exchange rates have clearly had an effect on export sales.

The expected trend in new orders for the first quarter 1991 is up for a balance of 5% of respondents, who expect Scottish and export new orders to both increase for a net of 25% and orders from the rest of the UK are also expected to increase for a balance of 16% of respondents. Actual sales in the fourth quarter of 1990 to Scotland and the rest of the UK were up for balances of 5% and 6% respectively. However, actual export sales were down for a net of 18% of respondents. The expected sales in the first quarter of 1990 to Scotland, rest of the UK and export are set to increase for balances of 20%, 16% and 17% respectively.

Chemicals and man-made fibres output (1985=100)



Respondent firms cited current capacity utilisation at 76.1% which is down for a net of 13% of firms. Investment intentions have been revised downwards for plant and machinery and land and buildings for nets of -37% and -32% respectively. This is a trend that is expected to continue in the first quarter of 1990 with nets of -21% and -18% respectively. The net figures conceal the fact that some firms are investing in plant and equipment and land and buildings; 12.5% and 4.5% revising their investment intentions upwards and 20.8% and 13.6% expecting to do so in the first quarter of 1992. The main reasons cited for investment are for replacement and to increase efficiency.

Ninety-one per cent of respondents cite orders or sales as the most likely limiting factor to output in the first quarter of 1991. Nets of -12% and -16% of respondents show that the trend in total employment is downwards for Q4 1990 and Q1 1991 respectively. However a half to three quarters of respondents foresee no change to their employment over the two periods. During the fourth quarter 1990 wages and salaries increased for 30.4% of respondents with average settlements of 9.4%. More than half of respondent firms attempted to recruit staff during the fourth quarter of 1990 and less than 10% of all respondents experienced difficulties achieving their recruitment targets. The most difficulty was encountered in recruiting technical staff, however, a balance of 8% of respondents stated that recruitment difficulties had eased during the fourth quarter.

The effects of an initial rise in feedstock costs due to the Gulf war has depressed fourth quarter profits for a number of UK chemical companies. The relative strength of sterling has also adversely affected results; BOC claim that currency effects have accounted for the whole of a £10 million decline in pre-tax profits form £81.5 million to £71.4 million during the three months to the end of December. This currency effect masks the real growth of the firm despite difficult trading conditions around the world. A 12% slump in earnings by BP was blamed on their chemicals arm. The general downturn in commodity chemicals demand and the impact of the Gulf crisis on feedstock costs are the main culprits. BP's year end results show that the contribution from chemicals fell from £548 million to £129 million, while oil and gas exploration and production earned just over £2 billion compared with £1.57 billion in 1989. The recent strength of sterling against the dollar will also have an adverse effect on oil based profitability.

BP also announced a doubling of oil throughput from the North Sea to Grangemouth as part of an £850 million investment plan in Central Scotland. This announcement was somewhat soured by the disclosure a fortnight previously, that at least 100 jobs could go at the Grangemouth refinery, in a review prepared by United States business consultants. They further suggested that annual revenue costs of £2.5 million could be saved by closing the Finnart oil terminal on Loch Long which could "be closed immediately unless it is needed for strategic reasons".

Rhone-Poulenc, the French state-owned chemicals groups, is to close its silicone manufacturing plant at ICI's Ardeer site in Ayrshire. However, the 180 employees, who are still on ICI's pay roll are unlikely to face compulsory redundancies, with many getting the chance to be redeployed or retrained.

The decisions by the Monopolies and Mergers

Commission to block ICI's sale of its loss making fertiliser business to their Finnish competitor Kemira has put the future of hundreds of jobs in Scotland in doubt. ICI must now decide whether to pull out of fertiliser manufacturing altogether, which could involve the closure of its plant at Leith with the loss of 150 jobs, as well as two other factories in England or try to find other ways of stemming its heavy losses. It will also have to decide what to do about Scottish Agricultural Industries (SAI), a wholly owned subsidiary with 280 employees which was put up for sale when the announcement of the agreement with Kemira was made. The only other possible buyer is Norsk Hydro which has 19% of the UK market, but they have so far shown no interest in purchasing the business. In any case they too would face a referral to the MMC.

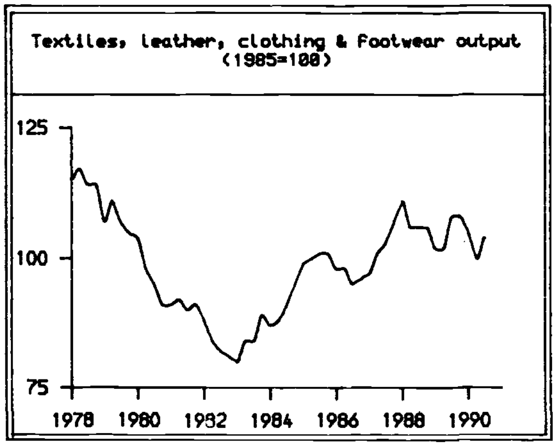
ICI is to shed 250 jobs from its Grangemouth works over the next two years. Falling demand for traditional dyes prompted the decision to retire 50 year old machinery and to reduce staff. The Grangemouth works currently employs 1,450 people (the highest staff level for five to ten years). It is hoped to achieve this through natural wastage and offers of voluntary redundancy over the entire workforce at Grangemouth.

TEXTILES, LEATHER, CLOTHING AND FOOTWEAR

Scottish output in this sector for the third quarter of 1990 shows an increase of 5% from the revised second quarter figure of 100 to stand at 104. The year on year comparison is flat, showing a degree of stagnation in this sector. Scotland continues to out-perform the UK as a whole, which stands at 96, a decrease of 2% on the previous quarter. The UK year on year comparison also shows a decline of 2%.

The latest Scottish Chambers' Business Survey (SCBS) shows that a balance of -41% of respondents were less optimistic about the general business situation in this sector in the fourth quarter of 1990 than they were in the previous quarter. A net of -54% of respondents were less optimistic when comparing their present optimism with a year ago.

The actual trend in new orders during the fourth quarter is downwards with a net of -54% of respondents seeing a reduction in new orders. New orders from Scotland, the rest of the UK and export orders showed negative balances of -35%, -36% and -26% respectively. The expected trend for the three months after the survey is also negative with nets of -32%, -40% and -13% respectively, and a balance of -40% for total new orders.



The trend in the total volume of sales is equally disappointing with fourth quarter 1990 sales down for sales to the rest of Scotland, the rest of the UK and export sales with respective balances of -39%, -42% and -23%. The expected trend for the first quarter of 1991 is not much better with respective balances of -30%, -43% and -10%.

Stocks of finished goods are up for a balance of +8% of respondents and this is expected to change to +1% in the first quarter 1991. Work in progress is down for a net of -28% of respondents in the fourth quarter 1990 and a net of -17.5% expect work in progress to be down in the next quarter as well. Stocks of raw materials are down for a net of 10% of firms and a net of -23% foresee a reduction in the first quarter of 1991. Increased stocks of finished goods, reduced work in progress and raw materials stocks are clear signs of firms feeling the bite of the recession.

Current capacity utilisation is 73.8% for respondent firms, which is down 6.8% from the third quarter of 1990. Investment intentions continue to be revised downwards with stronger negative balances than in the previous quarter. This is a worsening trend with plant and equipment planned investment down for nets of -18% in quarter 4 1990 and -21% in quarter 1 1991. Investment in land and buildings is slightly worse with -19% and -22% of respondents revising their intentions downwards for the two time periods respectively. The main reasons for any ongoing investment is to increase efficiency and to expand capacity. This is concurrent with reductions in the workforce in a drive to cut costs and increase competitiveness. Two thirds of respondents cite orders or sales as the major limiting factor over the first quarter of 1991.

Total employment is showing strong downward trends with balances of -36% in the fourth quarter of 1990 and -3% expected in the first quarter of 1991. The downward trend in employment is evident across the board with strong reductions in male, female, full-time, part-time, temporary workers and the self employed. There is a small increase in sub-contracting with a balance of +4% in quarter 4 1990 and an expected increase of +13% in the next quarter for respondent firms. However, these balance figures disguise the fact that more than half of all respondent firms saw no change in their employment levels in the fourth quarter 1990 and an average of 60% foresee no changes in the next quarter.

Overtime working is down for a balance of -42% of respondents in the fourth quarter of 1990 and a net of -36% are expecting it to be down in the next quarter. Short time working is up for a net of 15% of firms in both periods. Reduced overtime working and increased short time working are symptomatic of the current recession. A fifth of respondents have increased wages and salaries in the fourth quarter of 1990, with an average settlement of 9.5%. However 39% of respondents have attempted to recruit staff in the fourth quarter 1990, and a majority of firms have had no difficulties in achieving their targets. Of those experiencing problems recruiting the main shortages have been in skilled manual, 16-24 year olds and technical with more than a quarter of respondents experiencing problems in these areas.

UK trade balance figures highlight the downturn in this sector, in 1980 the trade balance for textiles was -£0.2 billion with export sales of £1.3 billion and imports of £1.5 billion. By 1990 this position had deteriorated in relative terms with a trade balance of -£1.2 billion, exports had risen to £2.5 billion but imports had risen to £3.9 billion. This shows a trade shift of -£1.2 billion, export growth of 85% and import growth of 156%. Clearly this is not a healthy situation for the textiles industry and further rationalisation is called for.

The on-again off-again link between two of Britain's biggest textiles groups is on again and Coats Viyella have offered £193.7 million for Tootal. Coats' offer price is less than half the value it put on Tootal in 1989 prior to the MMC referral. Coats' Chief Executive Nevill Bain warned that there would be "a degree of rationalisation of employment" if the two groups join forces but said that he did not "see significant job losses". Tootal have rejected the bid but time will tell. Mr Bain said that the value of the business (Tootal's) was declining rapidly and that his offer was an attempt to end disquiet within Tootal and to put a stop to the air of uncertainty.

The possible demise of the Brora spinners T M Hunter who went into receivership last October reducing its workforce from 130 to 50 could have a serious effect on aspects of the Shetland hand knitting industry. Hunter's are the only producers of the single ply wool used to make the famous ring shawl; a shawl so fine it can pass through a wedding ring. The HIDB has put together a purchase to enable Mr Stapleton, owner of the Pinney food company in Dumfriesshire to acquire the mill on reasonable terms. The package comprises £250,000 in grants and shares. Highland Prospect, the investment arm of Highland Region have agreed to purchases the mill site for £230,000 and lease it back to Mr Stapleton.

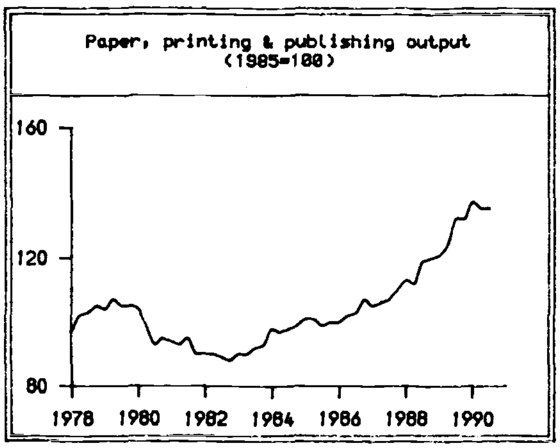
Exports by the wool textile industry fell by 12.5% in 1990 to £588.7 million. December exports alone fell by £12.2 million, nearly 25%, to £36.7 million, contributing to the overall shortfall of £84.2 million. The Apparel Knitting and Textiles Alliance (AKT) at a recent trade organisation warned the government that UK textile jobs losses were currently running at more than 25,000 a year. They warned that this was likely to increase unless interest rates were speedily reduced.

Daks Simpson is being bought by the Japanese firm of Sankyo Seiko. This sale is costing a total of £65 million and follows the purchase of Aquascutum by the Japanese clothing giant Renown Group last year. Daks-Simpson are an important supplier to Marks and Spencer. Three quarters of its British produced goods, mainly from its Scottish factory, are exported. The tie-up is purported to give the company better chances to expand its overseas markets.

PAPER, PRINTING AND PUBLISHING

The index of production and construction for paper, printing and publishing remained constant in Scotland from the second to the third quarter. This level represents a rise of 9% over the year. In the UK as a whole the index fell by 1%, an increase of 3% in the year.

The January Scottish Chambers' Business Survey revealed a balance of optimism of -41% compared to -32% in the October Survey. Orders and sales to all three areas, ie Scottish, rest of UK and export, remained depressed. 82% of respondents cited a lack of orders or sales as the most important constraint on output. Total employment fell for a net of -7% of SCBS respondents and is expected to fall for a net of -8%.



The high-tech book-printing company, Courier Corporation, of Massachusetts is to establish a plant at East Kilbride from which to service Scotland's electronics companies as well as its existing trade publication markets. The move was won by Locate in Scotland and East Kilbride Development Corporation. It is expected that around 100 jobs will be created in the first instance, with the total expected to rise to more than 150 over the next two years.

The Dundee based packaging group, Low & Bonar, announced a management restructuring. The group is moving from a product-based divisional structure into a geographical split based on two main areas: Europe, which includes the UK, and North America. The group does 30% of its business in Europe.

Macfarlane Group (Clansman), the Glasgow based packaging company is selling the division that manufactures marking products to its management for a total of £6.25m. Macfarlane says it wants to concentrate on its core businesses of packaging and plastic mouldings. Macfarlane says the sale will eliminate the company's debt and help fund a £7m investment programme.

Services

FINANCIAL SECTOR

Gloom is the predominant outlook in the financial sector as recession adds to the problems facing financial institutions. Stockbrokers, still beleaguered after the increased competition brought about by Big Bang, as a result of the failure of volumes to grow adequately (or of their competitors to give up) have been joined by fund managers whose vaunted investment expertise did little to prevent substantial falls in returns in 1990 in most of the funds under their management. Murray Johnstone, one of Scotland's foremost investment managers, has been frustrated in its search for partners and forced to make staff redundant, as is Ivory & Sime, whilst the banks are also facing tough times as a result of bad debts and other defaults. Both the Royal Bank and the Bank of Scotland more than doubled their provision for bad debts, from £88.1m to £193.8m for the Royal. TSB Scotland bucked the trend, a reflection of its low corporate lending, but even here the recession is forecast to have a significant impact this year.

The insurance companies might be thought to be in better shape although General Accident lost £121.3m. However GA Life made a profit of £25.2m and the publicity given to Standard Life's new administrative centre hardly suggests that times are hard. Indeed, we might be forgiven, on reading the publicity referring to custom built furniture and other lavish expenditures, the fear that no expense has been spared to the detriment perhaps of customers' life assurance policies. However, there are suggestions that market conditions for investment institutions have become more difficult. Certainly the unit trust market has not been easy with net redemptions (although probably by institutions for tax reasons) whilst legislative changes are making pensions more expensive for employers and may adversely affect prospects for further expansion of the pension market. At the same time a number of commentators continue to argue that tax breaks for pensions are inappropriate, and like wolves baying around a carcase, financial journalists and commentators have been snapping at the heels of our financial regulators particularly with regard to life assurance and unit trusts. The well publicised problems of FIMBRA and some spectacular failures have led to charges that the regulatory system is a "shambles".

The short term outlook is indeed not good but there seems little that the sector as a whole can do apart from trimming surplus fat and improving efficiency. Longer term, managers must be concerned with learning from past mistakes and attempting to position themselves in profitable sectors of their markets. For the banks, bad debts are a fact of life both on the consumer and corporate aspects of their business. Charging an adequate premium for the risks involved is crucial but there is probably little that they can do to prevent cyclical fluctuations. Investment overseas might offer some protection but even here economic cycles tend to be transmitted between countries so that the prospects for avoiding them are limited. For the investment and assurance institutions the prospects are likewise limited. Whilst pension funds seem certain to grow in the long term, a reflection of rising incomes and expectations, in the short term difficult trading conditions will reduce the numbers in employment in industry and commerce and restrain the ability of companies to fund improved or expanded schemes. Personal pension schemes may grow but long term the high administrative costs of such schemes suggest that growth potential may be limited. Life assurance may become more popular if returns in financial markets exhibit further falls following 1990 since life assurance essentially smoothes out investment returns, but the outlook is complicated by the difficulties faced by many life assurance brokers largely as a result of regulatory problems. These problems need to be addressed both to maintain investors' confidence and because they affect the marketing environment in which the institutions operate. It is in the interests of the institutions to find satisfactory solutions to our regulatory problems that whilst perhaps, not perfect, provide a sound basis for the future development of the industry.

At least three complaints about the current system of regulation are common. The first concerns the compensation scheme designed to protect the first £50,000 of an investor's money. Unfortunately the rules of the compensation scheme do not make clear the initial date from which compensation became available with the result that uncertainty surrounds the protection afforded to some investors. The sums in dispute are considerable and a severe burden on FIMBRA, the self regulatory body responsible for the regulation of independent brokers of life assurance and unit trusts. FIMBRA itself is a source of a second set of complaints largely relating to Polarisation, the principle by which financial advisers are divided between tied agents and independent advisers. Tied agents are in essence company salesmen, representing one organisation and only selling its products. Independent advisers represent the other extreme. They are charged with being truly independent of any supplier of financial products, and are intended to survey the market and offer independent advice. The requirements imposed on independents are onerous and expensive. The independents do not have the direct financial support of a major product supplier and have been finding the job of selling insurance and unit trusts increasingly difficult. The result has been a flow of independent intermediaries both out of the industry and into tied relationships with suppliers. It is doubtful if this is in the best interests of consumers. There has also been a dramatic fall in FIMBRA's membership at the same time as it has been having to meet increased compensation claims.

The third common criticism of financial regulation relates to the Best Advice principle which requires advisers and salesmen to act in the customer's best interests and not in the adviser's best interests by selling inappropriate, high cost policies. Needless to say policing such a rule is difficult and complaints legion. The difficulty of forecasting future maturity values accurately has been recognised but the solution, to prepare illustrations based on standard investment, mortality and expense assumptions has meant that the illustrations are largely meaningless.

The criticisms are severe but they do not suggest that the Financial Services Act has failed. The complaints largely centre around the selling of life assurance and unit trusts, areas of concern that are far from new. Problems predominantly arise from a combination of consumer ignorance and gullibility, combined with the needs of salesmen and their organisations to secure sales and profits. Short of banning the products it is doubtful if any regulatory system could ever stop the abuses that currently go on. This is not to say that nothing should be done but it is important to recognise that no system of regulation will solve all the problems. Improved information for consumers is one area worthy of attention. For both life assurance and unit trusts all charges and expenses both current and forecast should be clearly spelt out in any statement of potential returns together with forecasts and past experience. The basis of any advice should be stated in writing and include data on competing investments in terms of their returns and volatility. The aim should be to provide investors with enough information to illustrate how the advisers came to their decision. Such information will not prevent bad or biased advice and would not absolve the investor from being careful, but it would provide a record that can be audited and reconsidered. This is probably the best that any system of regulation can hope for.

Compensation schemes pose particular problems in any regulatory scheme. It is obviously desirable that investors should be protected from fraud but who should pay? Why should the conservative, well managed institution fund the excesses of the flamboyant and ephemeral salesman? There are no easy answers. A levy tied to turnover is probably the simplest solution but it doesn't really get to the heart of the problem of making sure that the costs of compensation fall on those advisers and salesmen most at risk. However, arguments about costs are probably less important than reassuring investors. Headlines suggesting that elderly savers have been deprived of their savings are unlikely to be good for business as a whole.

The sooner the regulatory problems are sorted out the better for everybody. Scotland with a major stake in the UK life assurance industry has an interest in making the legislation work. Rather than criticise and argue for wholesale reform it is time to recognise the difficulties of ever providing complete protection and make the existing legislation work more effectively. It is in the long term interests of the conservative, responsible fund management organisations.

DISTRIBUTIVE TRADES

According to the February Scottish Chambers Business Survey (SCBS), a small net majority of wholesalers was less optimistic about general business conditions at the end of January this year than they had been three months earlier. However, a more significant net majority (21.7%) felt that the contemporary business "climate" was worse than it had been in January 1990.

In spite of declining optimism, there was a very small increase in total wholesale employment in the three months to end January. net gains were recorded in male and female full-time, part-time and temporary employment. A small balance (+4.1%) of wholesalers respondents expected further job growth between February and April.

Almost half of the wholesalers (46.7%) surveyed had attempted to recruit staff during the preceding three months. Most difficulties were noted in finding suitable 16-24 year olds. In terms of occupations, greatest difficulties were found in the recruitment of clerical and skilled manual staff.

In terms of the balance of business optimism, the geographical pattern of wholesaler results in February was as follows:

Chamber Area	Net % more optimistic
Fife	0.0
Central	0.0
Edinburgh	-17.6
Aberdeen	+11.6
Glasgow	-23.6
Dundee	+6.7

According to the SCBS, a net 22.7% of retailers were less optimistic in January than three months earlier, and a net 33% felt that general business conditions were poorer than in January 1990.

In contrast to wholesaling, Scottish retailers reported a small net loss in total employment in the three months to end January. Job declines were concentrated in male full-time workers. A balance of 6% of respondents expected further job losses in the early months of this year, notably among temporary workers.

In spite of the overall fall in employment, 46% of retailers had attempted to recruit staff over the preceding three months. Most difficulties were noted in obtaining professional/managerial and skilled manual workers.

In terms of the balance of business optimism, the geographical distribution for retail results in February was:

Chambers Area	Net % more optimistic
Fife	-22
Central	-10
Edinburgh	-50
Aberdeen	-16
Glasgow	-20
Dundee	-29

TRANSPORT

The American-owned freight company Federal Express has announced that it is to increase the frequency of its distribution service from Prestwick Airport by operating regular weekday services to Manchester and Brussels. The new service will also allow the company to upgrade services by accepting later delivery times. Despite this improvement, however, the company has emphasised that the improved service does not necessarily imply that Prestwick is to be chosen as its second European distribution centre (after Brussels), where Prestwick is in competition with Shannon in Ireland and Keflavik in Iceland. Federal Express has emphasised that no decision on this is likely until the air freight market lifts out of recession.

The sale of the constituent parts of the Scottish Bus Group (SBG) continues. It was noted in the last issue of this Commentary that the likely final outcome would be a bus industry in Scotland composed of a mixture of locally-owned companies and subsidiaries of national operators and the two most recent sales conform to this pattern (although, at present, it appears that the majority of the ten new companies will be locally-owned). Kelvin Central, which owns 500 buses and six depots in Glasgow and Lanarkshire, has been purchased by a joint employee/management team for a price believed to have been between £7-800,000, including some subsidies. One important subsidiary objective of the SBG sale has been to encourage wider workforce share ownership and this is once again a feature of the sale. In addition, three "worker-directors" will be elected to the Board by the staff. Given that the employees have also agreed to wage cuts of 10-12% to help company viability, this amounts to a very new climate of industrial relations at Kelvin, which was almost crippled by an acrimonious 14-week dispute in 1989 and where there were further problems following the closure of two depots early in 1990.

Meanwhile, the Perth company Stagecoach has been successful in its bid for Northern Scottish Omnibuses, which has a fleet of 225 buses and 550 staff. Stagecoach currently runs an employee share scheme and profit sharing scheme which will be made available to the new employees.

HEALTH

Another quiet quarter for economic news about the health sector has seen the continuation of various controversies concerning the potential formation of hospital trusts, and unease over the composition of the newly-constituted Health Boards.

It was stated in a Parliamentary answer (23/1/91) that 4 GP practices or groups of practices have applied to become fundholders in Scotland from 1 April 1991 - in Forfar, Dundee, Edinburgh and Helensburgh.

Meanwhile, no hospital trusts will be formed by this date, but a number of organisations have applied for 1992 and some are investigating the position. South Ayrshire has supplied much of the controversy. In a ballot of 62 consultants, 48 opposed trust status, 11 supported it (subsequent newspaper reports say the number has fallen to 9), and the others abstained. Ayrshire GPs are reported to be unhappy with the lack of consultation on the matter. Despite all this the management side appears determined to push ahead with a trust application, and at the end of February it was announced that Ayr, Ballochmyle and Biggart Hospitals are to apply for trust status. Similar pressures are evident at the Victoria Infirmary in Glasgow where consultants voted 45 to 10 to seek further information on trust status. In the Victoria's case this move could be viewed as a defensive one as the Greater Glasgow Health Board continues to review the provision of services, especially in the acute sector. These two examples are symptomatic of the general position of health services managers showing considerable enthusiasm for the changes sought by the government. Perhaps confirmation is provided in the Health Service Journal of 31 January, which reported that Alain Enthoven, often credited with the ideas behind the market approach to be adopted in the NHS, who last year thought that the government was rushing matters, has changed his views after observing the enthusiasm and dedication evident at several trust status hospitals in England.

On the Health Board front the Scottish Office seems determined to pack the new slimmed-down boards with appointees sympathetic to its ideas and proposed reforms. At least this is the view of trade unionists, who will have seen their 36 board members of 1979 reduced to 7 currently and none by April this year, despite putting forward 44 nominations. Also unhappy are local authorities, who can no longer nominate representatives under the new regulations. This "politicisation" of the health service in the name of a so-called business-like approach could well rebound: a new government of different political hue might feel justified in taking advantage of the new approach by appointing its own sympathisers. The NHS is turning into a very different organisation from that conceived 40 years ago.

The Labour Market

Past Commentaries have noted that recent experience of changes in official estimates of employment data emphasise the need for caution amongst those who seek to interpret recent labour market trends. Significant under-reporting of employment growth had apparently occurred prior to the 1988 Labour Force Survey (LFS). However, the recently published results of the 1987 Census of Employment suggested that LFS estimates over-estimated the extent of under-recording of employment. The most recent estimates, however, apparently based on the 1989 LFS, have been adjusted upwards as compared to the 1987 census-based estimates.

The revisions to the estimates of the numbers of employees in employment in Scotland generated by the recent revisions are reported in Tables 1 and 2. On the original estimates total employees in employment grew by 26,000 roughly 1.4% over the year to March 1989. The census-based revised estimates showed an increase of 18,000 or 1.0% (on a base estimate which is lower by 0.5% than originally). In March 1989 for example, the number of employees in employment had been revised downward due to the census by a total of 18,000, which is equivalent to a decrease in estimated employment levels of 1.1% of the employment stock. However, the latest estimates imply that total employment grew by 47,000 or 2.5% over the year to March 1989. If current figures are to be believed the original data <u>under</u> not <u>over</u> estimated employment growth.

The earlier 1988 LFS based revisions seemed to imply a rather different picture of labour market flows than was previously available. Thus a number of Commentaries had commented on the "puzzle" of decreasing levels of unemployment juxtaposed against fairly stable employment. For example, over the year to September 1988 unemployment fell by some 37,000 yet the number of employees in employment was originally estimated to have risen by only 5,000 over the same period. It appeared that as unemployment was falling, employment was in fact increasing by a comparable amount, although recorded employment failed to pick this up at the time. The census based estimates of employment were apparently also compatible with this account. Although the estimated level of employees in employment at September 1987 was reduced to 1880.7, the implied increase to September 1988 was 42.2 thousand. The new estimates imply that this underestimated employment growth by some 14 thousand.

The composition of the downward revision to the numbers of employees in employment due to the census, was for March 1989, as follows. Of the total reduction of 18,000 in estimated employees in employment none are male. In fact estimates of part-time female employment were reduced significantly below those implied by the LFS (wherein such employment was the only employment to be revised downward). Thus estimates of part-time female employment at March 1989 were reduced by some 26,000 to 361,000, implying that estimates of full-time female employment had increased by some 8,000. However, the 1989 LFS based estimates come close to restoring the 1988 LFS based view. Total female employment is now estimated to have increased by some 30,000 more than was implied by the census based estimates. In fact this total is greater than that in the 1988 LFS based estimate, although the current estimate of part-time female employment has fallen.

The most recent employment data (available only on the basis of LFS induced revisions) are for September 1990, and those are also reported in Tables 1 and 2. Overall, total employees in employment increased by 41,000 (2.1%) in the year to September 1990. Male employees in employment rose by 7,000 (0.7%), and total female employment increased by 33,000 (3.5%). Part-time female employment rose by 20,000 (5.3%), whereas full-time female employment grew by some 13,000 or 2.3%. If part-time is interpreted as "one-third time", then full time equivalent employment rose by about 27,000 (1.6%). This employment gain is much the same as the annual growth to June 1990, but the growth in male and female full-time employment remains encouraging relative to past experience, although part-time employment growth accounts for a bigger share of the increase than was true of the year to June 1990. About eight thousand of the increased employment occurred in production and construction industries, and 32,000 in services, a pattern consistent with the much greater increase in female employment.

Table 1 Employees in employment in Scotland: industry aggregates (000's)
(Figures in parentheses reflect revisions due to 1988 LFS and those in square brackets reflect 1987 census up to Spring 1988 and the 1989 LFS thereafter)

	Male	Female All	Female Part-time	Total	Production & construc. industries	Production industries	Manufacturing industries	Services industries
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1986 Sept	1,020	866	367	1,886	595	460	409	1,261
Dec	1,006	868	375	1,874	586	451	404	1,259
1987 Mar	997	865	375	1,862	578	442	396	1,254
June	1,006	880	379	1,886	579	441	395	1,277
	(1,010)	(882)		(1,892)				
Sept	1,001	878	383	1,879	577	437	392	1,273
	(1,011)	(884)	(381)	(1,895)	(584)	(442)	(397)	(1,283)
Dec	996	881	389	1,877	572	432	388	1,278
	(1,012)	(891)	(385)	(1,903)	(582)	(440)	(395)	(1,294)
1988 Mar	989	879	387	1,868	570	429	386	1,271
	(1,010)	(893)	(381)	(1,903)	(584)	(439)	(396)	(1,292)
	[1,013]	[880]	[362]	[1,893]	[591]	[464]	[408]	[1,274]
June	996	892	389	1,888	568	427	385	1,292
	(1,020)	(908)	(383)	(1,928)	(584)	(439)	(396)	(1,316)
	[1,021]	[890]	[361]	[1911]	[592]	[466]	[408]	[1,290]
Sept	992	892	389	1,884	569	427	387	1,287
	(1,022)	(910)	(382)	(1,932)	(588)	(443)	(400)	(1,315)
	[1,027]	[909]	[368]	[1,936]	[600]	[475]	[417]	[1,307]
Dec	(1,020)	(923)	(396)	(1,942)	(589)	(443)	(402)	(1,327)
	[1,016]	[921]	[380]	[1,937]	[602]	[478]	[420]	[1,307]
1989 Mar	(1,015)	(914)	(387)	(1,929)	(587)	(440)	(401)	(1,314)
	[1,016]	[924]	[376]	[1,941]	[601]	[476]	[418]	[1,311]
Jun	[1,018]	[941]	[384]	[1,959]	[599]	[474]	[416]	[1,331]
Sept	[1,031]	[947]	[376]	[1,977]	[606]	[482]	[423]	[1,342]
Dec	[1,029]	[958]	[390]	[1,988]	[606]	[484]	[424]	[1,354]
1990 Mar	[1,021]	[954]	[382]	[1,975]	[602]	[481]	[420]	[1,345]
Jun	[1,028]	[972]	[394]	[2,000]	[605]	[485]	[424]	[1,365]
Sept	[1,038]	[980]	[396]	[2,018]	[614]	[494]	[432]	[1,374]

Source: Department of Employment Gazette.

Table 2 Employment: Scotland Employees in employment ('000s)*

SIC 1980	Agric./ forestry/ fishing 0	Energy and water supply 1	Metal Manuf. & chemicals 2	Met.goods, Eng. & vehicles 3	Other Manuf. 4	Constr- uction 5
1979	48	72	82	258	265	155
1983	37	68	55	195	194	134
1984 Mar	36	66	52	189	191	136
June	35	65	53	189	192	136
Sept	37	65	53	187	193	139
Dec	33	65	53	188	192	138
1985 Mar	32	63	53	187	190	137
June	34	60	52	188	191	136
Sept	36	59	51	189	189	136
Dec	31	58	50	186	187	135
1986 Mar	31	56	49	184	183	133
June	31	53	48	182	181	134
Sept	30	51	48	180	181	135
Dec	29	47	47	178	179	135
1987 Mar	30	46	47	176	173	136
June	30	45	46	177	172	135
Sept	28 (28)	45 (45)	46 (46)	175 (177)	171 (173)	140 (142)
Dec	27 (27)	44 (44)	46 (47)	173 (176)	169 (172)	140 (142)
1988 Mar	27 (27) [28]	42 (43) [57]	46 (47) [48]	172 (177) [161]	168 (172) [199]	141 (144) [126]
June	28 (28) [29]	42 (43) [58]	45 (46) [47]	173 (178) [161]	167 (172) [200]	141 (145) [126]
Sept	28 (28) [30]	41 (42) [58]	45 (47) [47]	175 (181) [165]	166 (172) [205]	142 (145) [125]
Dec	(27) [28]	(41) [58]	(48) [48]	(183) [166]	(171) [206]	(146) [124]
1989 Mar	(27) [28]	(40) [58]	(48) [48]	(185) [168]	(168) [203]	(147) [125]
June	[29]	[58]	[47]	[166]	[202]	[125]
Sept	[30]	[59]	[48]	[168]	[207]	[124]
Dec	[28]	[60]	[49]	[169]	[206]	[122]
1990 Mar	[28]	[61]	[49]	[168]	[203]	[121]
June	[30]	[61]	[47]	[170]	[207]	[120]
Sept	[30]	[63]	[47]	[172]	[212]	[120]

(cont.)

Table 2 **Employment: Scotland Employees in employment ('000s)* (cont)**

SIC 1980	W/sale dist. hotels & catering 61-63 66-67	Retail distrib 64/65	T/sport & communi- cation 7	Banking, insurance & finance 8	Public admin & defence 91-92	Educ. health & oth. ser 93-99
1979	197	194	135	123	170	403
1983	188	183	119	140	171	416
1984 Mar	180	183	118	138	170	421
June	193	186	115	141	170	425
Sept	193	186	115	146	170	419
Dec	187	196	114	146	169	422
1985 Mar	188	184	115	147	169	427
June	195	185	115	146	170	432
Sept	198	188	115	151	172	428
Dec	191	193	113	150	171	433
1986 Mar	190	187	111	151	172	428
June	199	186	110	155	175	435
Sept	199	187	111	158	176	431
Dec	190	191	108	159	176	436
1987 Mar	189	183	106	161	176	439
June	198	185	108	165	177	444
Sept	202 (203)	182 (183)	108 (109)	164 (166)	179 (180)	439 (442)
Dec	194 (197)	191 (193)	106 (108)	166 (169)	179 (181)	442 (446)
1988 Mar	199 (202) [187]	184 (186) [181]	105 (107) [114]	165 (169) [161]	180 (183) [186]	439 (445)[445]
June	208 (212) [193]	185 (187) [180]	105 (108) [115]	169 (173) [165]	181 (185) [188]	444 (452)[449]
Sept	203 (207) [191]	185 (188) [184]	103 (106) [117]	174 (179) [169]	178 (184) [190]	443 (451)[456]
Dec	(205) [188]	(188) [188]	(106) [115]	(179) [169]	(175) [183]	(469) [463]
1989 Mar	(201) [189]	(188) [186]	(104) [115]	(183) [172]	(168) [184]	(469) [465]
June	[197]	[188]	[116]	[174]	[187]	[469]
Sept	[198]	[189]	[116]	[176]	[187]	[477]
Dec	[191]	[193]	[116]	[177]	[189]	[487]
1990 Mar	[187]	[187]	[117]	[179]	[190]	[487]
June	[198]	[189]	[115]	[180]	[195]	[488]
Sept	[204]	[188]	[115]	[182]	[204]	[481]

Source: Department of Employment Gazette

Table 3 Unfilled Vacancies at Jobcentres - Scotland Vacancies at Jobcentres (Thousands)

	Seasonally adjusted: Number	Change since prev. month	Average chge over 3 months ending	Unadjusted Total	Vacancies at Career Offices: Unadjusted
1988 Jun	19.6	-0.4	0.0	21.0	0.7
Jul	19.8	0.2	-0.3	21.2	0.6
Aug	20.0	0.2	0.0	20.7	0.6
Sep	20.0	0.0	0.1	21.8	0.6
Oct	20.6	0.6	0.3	22.0	0.4
Nov	20.0	-0.6	0.0	20.5	0.5
Dec	20.5	0.5	0.2	18.8	0.4
1989 Jan	20.0	-0.3	-0.1	17.0	0.5
Feb	19.9	-0.1	-0.0	17.2	0.5
Mar	19.8	0.1	-0.2	18.5	0.5
Apr	20.3	0.5	0.1	20.2	0.6
May	20.5	0.2	0.2	21.5	0.7
Jun	21.8	0.0	0.7	23.3	1.0
Jul	21.8	0.0	0.5	23.1	0.9
Aug	22.1	0.3	0.5	22.7	0.9
Sep	22.6	0.5	0.3	24.5	1.0
Oct	23.4	0.8	0.5	25.2	0.8
Nov	24.7	1.3	0.9	25.3	0.9
Dec	23.4	-1.3	0.3	21.9	1.1
1990 Jan	22.8	-0.3	-0.1	19.8	1.1
Feb	22.3	-0.5	-0.7	19.2	1.0
Mar	22.3	0.0	-0.3	20.5	1.2
Apr	23.0	0.7	0.1	22.9	1.5
May	22.7	-0.3	0.1	23.6	1.3
Jun	22.4	-0.3	0.0	23.8	1.4
Jul	22.2	-0.2	-0.3	23.3	1.2
Aug	22.4	0.2	0.1	23.2	1.1
Sep	22.4	0.0	0.0	24.5	1.1
Oct	21.9	-0.5	-0.1	24.0	0.9
Nov	18.4	-3.5	-1.3	19.4	0.9
Dec	16.4	-2.0	-2.0	15.2	0.6
1991 Jan	18.6	2.2	-1.1	15.6	0.7

* Vacancies at jobcentres are only about one third of all vacancies in the economy

Source: Employment Department Press Notice

Over the year to September 1990 the biggest employment gains were registered by: public admin. etc. (17,000); education etc. (4,000); ; banking, insurance and finance (6,000) and other manufacturing (6,000). Construction registered the biggest employment loss (2,000) and 1,000 jobs were also lost in metal goods etc., retail distribution and transport and communication.

Vacancies: Stocks and Flows

Over the year to January 1991 unfilled vacancies at job centres in Scotland fluctuated between 16.4 (15.2) and 22.8 (24.0) thousands on a seasonally adjusted (unadjusted) basis (Table 3). Vacancies fell by 4.2 thousands (18.4%) from 22.8 to 18.6 thousands over the year to January 1991. Note, though, that the reduction in vacancies was concentrated in the recent past. Against the background of other evidence it seems likely that this reflects a downturn in labour demand. That this recent downturn in vacancy numbers occurs against the background of an otherwise upward trend may herald bad news for employment in the comparatively near future. The net reduction in the stock of unfilled vacancies conceals much larger gross inflows and outflows (Table 4). These were of a similar order of magnitude to the outstanding stock of vacancies in each month. For example, in January 1991 inflows of 21.0 thousand were nearly matched by outflows. During 1990 there were a total of over 266,000 vacancies at job centres, well over 90% of which resulted in placings. The short average duration of vacancies is a sign that employers on average do not find it difficult to fill posts because of a *continuing* slackness in the labour market (although employers may still find it difficult to recruit specific skills in particular locations).

Unemployment: Stocks and Flows

Recent data on the seasonally adjusted unemployment stock are presented in Table 5. The most recent data, of course, reflect the current rules governing eligibility to claim benefit which have been in place since September 1988. These reflect the extension of a guaranteed offer of a YTS place to all those under 18 who have not found a job, under the Employment Training Scheme. Under 18s are consequently not entitled to claim benefit and so are excluded from the unemployment count. Table 5 presents a short time series of unemployment in the old as well as the new basis to facilitate comparison.

Table 4: Vacancy flows at Jobcentres, standardised, seasonally adjusted Scotland

	In-flow		Out-flow		Thousands of which: Placings	
Date	Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1988 Jan	20.5	-0.1	21.6	0.5	18.1	0.3
Feb	20.2	-0.5	20.6	-0.2	17.3	-0.2
Mar	20.6	-0.5	20.4	-0.6	17.1	-0.6
Apr	20.7	0.1	20.4	-0.4	17.3	-0.3
May	20.8	0.2	20.5	0.0	17.4	0.0
June	20.9	0.1	21.5	0.4	18.2	0.4
Jul	20.1	-0.2	19.8	-0.2	16.6	-0.2
Aug	20.9	0.0	20.7	0.1	17.5	0.0
Sep	21.2	0.1	20.7	-0.3	17.4	-0.3
Oct	20.9	0.2	20.8	0.3	17.5	0.2
Nov	21.0	0.1	21.6	0.4	18.4	0.4
Dec	21.5	0.1	20.9	0.0	17.8	0.1
1989 Jan	20.4	-0.2	20.7	0.0	17.5	0.0
Feb	21.9	0.3	22.3	0.2	19.1	0.2
Mar	21.1	-0.1	21.3	0.1	18.0	0.1
Apr	21.3	0.3	20.9	0.1	17.6	0.0
May	21.4	-0.2	20.9	-0.5	17.7	-0.5
Jun	21.9	0.3	20.1	-0.4	17.1	-0.3
Jul	22.1	0.3	22.0	0.4	18.5	0.3
Aug	23.1	0.6	22.8	0.6	19.2	0.5
Sep	22.6	0.2	22.2	0.7	18.6	0.5
Oct	24.1	0.7	23.4	0.5	19.8	0.4
Nov	24.6	0.5	23.4	0.2	19.7	0.2
Dec	22.1	-0.2	22.6	0.1	19.1	0.2
1990 Jan	20.1	-1.2	21.2	-0.6	17.9	-0.5
Feb	22.7	-0.4	23.4	0.1	19.4	0.0
Mar	22.3	0.1	22.3	0.0	18.5	-0.1
Apr	22.4	0.8	22.2	0.3	18.4	0.2
May	22.5	0.1	22.3	-0.4	18.4	-0.3
Jun	21.6	-0.2	21.9	-0.1	18.1	-0.1
Jul	23.5	0.4	23.5	0.4	19.7	0.4
Aug	23.2	0.2	22.8	0.2	18.8	0.1
Sep	22.9	0.4	22.9	0.3	18.6	0.2
Oct	22.5	-0.3	23.2	-0.1	18.9	-0.3
Nov	22.1	-0.4	26.3	1.2	21.0	0.7
Dec	20.8	-0.7	21.8	-0.4	17.5	-0.4
1991 Jan	21.0	-0.5	19.6	-1.2	15.8	-1.0

Source: Department of Employment

Table 5 **Scotland - Unemployment** - seasonally adjusted (excluding school **leavers (000s)** (Figures in parentheses reflect estimates on **September 1988** basis - see text for details)

Date	Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate percentage of working population
1984	235.2	106.4	341.6			14.0
1985	243.6	109.3	353.0			14.2
1986	248.1	111.8	359.8			14.5
1986 Dec	242.6	104.8	347.4	1.2	1.1	14.0
1987 Dec	218.2	90.5	308.7	-2.6	-4.2	12.4
	214.5	87.8	302.3	2.8	-4.1	12.2
1988 Oct	193.4	76.7	270.1	-2.2	-3.1	10.9
Nov	191.0	75.5	266.5	-3.6	-3.1	10.7
Dec	186.7	73.5	260.2	-6.3	-3.3	10.5
1989 Jan	184.0	72.6	256.6	-3.6	-3.2	10.3
Feb	181.7	71.7	253.4	-3.2	-3.3	10.1
Mar	180.2	70.3	250.5	-2.9	-3.6	10.0
Apr	175.1	68.2	243.3	-7.2	-4.5	9.7
May	172.8	66.7	239.5	-3.8	-4.5	9.7
Jun	170.0	65.0	235.0	-4.5	-4.2	9.4
Jul	168.9	63.9	232.8	-2.2	-4.0	9.4
Aug	167.7	63.3	231.0	-1.8	-3.7	9.3
Sep	163.0	61.8	224.8	-6.2	-4.3	9.1
Oct	159.2	60.4	219.6	-5.2	-4.0	8.8
Nov	155.8	59.0	214.8	-4.8	-4.1	8.6
Dec	153.0	57.5	210.5	-4.3	-4.1	8.5
1990 Jan	151.1	56.8	207.9	-3.3	-3.8	8.3
Feb	150.8	56.2	207.0	-0.9	-3.6	8.2
Mar	149.6	55.4	205.0	-2.0	-3.1	8.2
Apr	148.5	55.3	203.8	-1.2	-2.6	8.1
May	147.1	54.3	201.3	-2.4	-2.2	8.0
Jun	147.0	54.1	201.1	-0.3	-1.7	8.0
Jul	147.9	53.6	201.5	0.4	-1.1	8.0
Aug	147.6	52.8	200.4	-1.1	-1.1	8.0
Sep	147.6	51.6	199.2	-1.2	-1.0	7.9
Oct	146.9	51.0	197.9	-1.3	-1.0	7.9
Nov	147.8	50.8	198.6	0.7	-0.5	7.9
Dec	149.6	51.2	200.8	2.2	-0.1	8.0
1991 Jan(p)	150.1	51.2	201.3	0.5	0.0	8.0

Source: Department of Employment

Table 6: Unemployment flows - standardised, unadjusted: Scotland (000s)

Month ending		In-flow	Out-flow
1987	Oct	46.7	54.5
	Nov	44.0	47.5
	Dec	38.2	35.3
1988	Jan	43.0	34.6
	Feb	39.8	48.2
	Mar	35.6	46.1
	Apr	38.3	44.6
	May	32.5	45.8
	Jun	35.5	44.2
	Jul	43.0	41.5
	Aug	34.2	40.1
	Sep*	43.4	43.3
	Oct	37.9	55.2
	Nov	36.6	38.4
	Dec	33.5	34.3
1989	Jan	32.2	26.9
	Feb	33.1	40.7
	Mar	31.7	39.0
	Apr	30.5	38.9
	May	27.3	38.6
	Jun	27.9	35.5
	Jul	37.1	33.5
	Aug	30.9	33.5
	Sep	33.0	41.6
	Oct	31.9	38.2
	Nov	31.5	34.2
	Dec	27.8	26.8
1990	Jan	29.7	22.9
	Feb	31.9	35.7
	Mar	29.5	35.5
	Apr	29.7	33.3
	May	25.8	35.9
	Jun	29.1	31.5
	Jul	38.5	30.2
	Aug	29.9	30.5
	Sep	32.5	37.6
	Oct	33.0	35.3
	Nov	34.1	31.1
	Dec	31.6	25.3
1991	Jan	31.3	20.8

* The September figures are biased by the postal strike.

Unemployment, on a seasonally adjusted basis, rose in each of the three months up to and including January 1991. The trend of declining unemployment appears therefore to have been reversed in recent months, although it is worth noting that unemployment in October 1990 was at its lowest level in recent years, dropping below the 200 thousands mark. While the registered increases were not dramatic (0.7, 2.2 and 0.5 thousand in November, December of 1990 and January of 1991 respectively), at least by comparison with the scale of falls in unemployment which preceded them, they clearly are a matter for some concern, especially given evidence of a likely further deterioration in economic activity at least in the near future.

Over the year to January 1991 total unemployment fell by about 6.6 thousand, from 207.9 thousand or 0.3 full percentage points. This represents a reduction in the level of unemployment of 3.2 per cent. Furthermore, 1,000 of the reduction occurred among males and around 5,600 among females.

Table 6 presents recent flows into and out of the unemployment stock. In January 1991 inflows were at 31.3 thousand, about 1.6 thousand more than in the same month of 1990. Outflows were, at 20.8 thousand, 2,100 less than in January 1990. If gross outflows were maintained at their January 1991 level unemployment stocks 400 would turnover in just over 6 months.

BUSINESS SURVEY EVIDENCE

The quarterly Scottish Chambers' Business Survey provides additional, largely qualitative, information as to the current nature of, and short term changes in, the Scottish labour market. The results from the survey are expressed in terms of the 'balance of respondents', this is found by subtracting those replying negatively (ie downward trends in employment) from those replying positively (ie upward trends in employment). Respondents who report 'no change' are excluded.

The Chambers' survey generates labour market data on six major sectors: oil; manufacturing, construction, wholesale and retail distribution, finance and tourism and leisure - throughout Scotland. However, at present area analyses are based on six areas:- Aberdeen and the Highlands; Dundee and Tayside; Fife; Central Scotland;

Glasgow and the West of Scotland; and Edinburgh and the Borders, rather than established local authority or Local Enterprise Company areas.

The following data, generated from the survey covering the fourth quarter 1990 and expectations as to changes for the first quarter 1991, is based on some 1,200 responses.

Employment

Downward trends in total employment were widely reported in Construction, Manufacturing, Retail and Finance. However, a limited expansion was recorded in Wholesale Distribution and in Tourism and Leisure. Apart from Wholesale Distribution the expectations for the first quarter of 1991 indicate a decline in the levels of employment in all sectors.

Table 7 Trends in total employment (net balances of responses)

Sector	4th quarter 1990	Expected first quarter 1991
Oil	0% (ie steady)	+20%
Manufacturing	- 5%	- 5%
Construction	-27%	-27%
Wholesale	+ 2%	+ 4%
Retail	- 4%	- 6%
Tourism/Leisure	+ 1%	-17%
Finance	-23%	-17%

The limited growth in part time employment reported in Wholesale, Retail, Finance and Tourism and Leisure was not expected to continue through the first quarter of 1991. Likewise the limited increase in temporary employment was expected to reverse. The general use of sub contract, agency and self employed labour continued to decline in the fourth quarter and further declines are expected in early 1991.

Recruitment

Recruitment activity declined across all sectors in the fourth quarter, although it is uncertain as to whether this reflects a general decline in the demand for labour, or the impact of seasonal factors (see Table 8). These figures should be treated with some caution, they clearly reflect firms entering the labour market to replace labour. However the data does not indicate the scale of such activity by each firm.

Table 8 Percentages of respondents reporting recruiting employees (Recruitment activity third and fourth quarters 1990)

Sector	3rd quarter 1990	4th quarter 1990
Oil	100%	60%
Manufacturing	65%	50%
Construction	61%	46%
Wholesale	67%	47%
Retail	55%	46%
Finance	39%	23%
Tourism/Leisure	79%	60%

The Scottish Chambers' Business Survey seeks to generate information as to skill shortages and local labour demand in three ways. First respondents are asked if they have experienced difficulties in recruiting any of the following categories of employees:- professional and managerial; technical; clerical; skilled manual; other manual; part time; temporary and 16 - 24 year olds. Secondly, respondents are asked if these recruitment difficulties have increased or eased over the preceding three months. Thirdly, respondents are asked if they are experiencing any problems in both recruiting and retaining suitable in particular occupations.

Notwithstanding this general decline in recruitment activity recruitment difficulties appeared widespread at the sectoral level. Amongst manufacturing respondents who recruited in the fourth quarter 1990 45% reported difficulties in recruiting skilled manual staffs, 37% technical and 34% professional and technical employees. In the oil related manufacturing sector the problems were greater. All respondents reported experiencing difficulties in recruiting technical and skilled manual staffs, 60% reported difficulties in recruiting professional and managerial employees.

In construction 47% reported difficulties in recruiting technical staff and 44% in recruiting skilled manual. In the oil related construction sector all respondents reported difficulties in recruiting technical staffs, 50% reported difficulties in recruiting managerial and professional and young workers and 40% reported difficulties in recruiting skilled manual. Whilst we are unclear as to the degree to which the occupations are transferable across sectoral boundaries there is clear evidence as to general shortages of skilled manual and technical staffs in a range of specialisms.

Similarly general shortages in clerical and in 16 - 24 year olds are apparent. Difficulties in recruiting clerical staffs were reported by 30% of financial sector respondents, 27% of wholesale and 26% of retail distribution respondents. Difficulties in recruiting 16 - 24 year olds were reported by 30% of financial, 31% of manufacturing, 34% wholesale and 26% of retail respondents.

The extent of difficulty or ease in recruiting staffs at the sectoral level is illustrated in Table 9. This table only provides us with a very general sense of recruitment concerns, it does not indicate the occupation, nor whether the problem is quantitative or qualitative in nature. Nevertheless, over time it will provide an indication of the general trends in skills shortages and supplies at both the sectoral and area level.

Table 9 Percentages of respondents reporting increased/decreased recruitment difficulties in preceding three months (figures for the fourth quarter 1990)

Sector	Increased recruitment difficulties	Reduced recruitment difficulties
Oil	25%	0%
Manufacturing	19%	8%
Construction	25%	15%
Wholesale	15%	9%
Retail	21%	6%
Finance	2%	0%
Tourism/leisure	37%	54%

The data gathered on recruitment and retention issues in particular occupations provides further indications as to trends in the Scottish labour market, although not all the data collected by the revised Scottish Chambers' Business Survey is currently available. Furthermore, difficulties in recruiting and retaining staff in particular occupations is influenced by the perceptions of jobs as 'good' or 'bad' and by levels of earnings. Nevertheless, this section will include, in future issues of the Commentary, trends in recruitment and retention issues at the sectoral level.

Salary Movements

Wage and salary increases reported in the fourth quarter of 1990 were, on average, slightly below the prevailing rate of inflation. However, as Table 10 illustrates there was considerable variation between sectors as to the percentage of respondents reporting increases in wages/salaries and the average increase. The stronger demand for labour in oil related construction and manufacturing was reflected in the higher level of wage and salary increases (both sectors reporting average increases of 12%).

Table 10 Incidence and size of Wage/salary increases in fourth quarter 1990

Sector	% firms reporting increases	Average % increases
Oil	40%	8.0%
Manufacturing	34%	9.4%
Construction	31%	9.5%
Wholesale	24%	8.4%
Retail	23%	11.1%
Tourism/leisure	43%	8.3%
Finance	7%	5.0%

Regional Review

Introduction

In the Labour Market section, changes in Scottish employment patterns were analysed. However, whilst labour market movements differ between Scotland and thee UK as a whole, they also vary within Scotland the the purpose of Regional Review is to examine sub-Scottish movements in the employment situation. Inter-authority variations which have occurred over the last year will be highlighted as well as intra-regional disparities.

The data used in the previous section had typically been adjusted for seasonal factors. Data availability necessitates that unadjusted figures be used for disaggregated analysis and thus cautious interpretation should be exercised when comparing the current unemployment situation with that which prevailed in the preceding quarter and month.

In this issue of the Commentary, we continue to use two types of unemployment rate. Until the end of 1989, only a narrow measure was available for local authority calculations. These are based on an incomplete definition of the workforce which includes only employees in employment and the unemployed but excludes the self-employed, HM Forces and those on work-related government training programmes. The more recent wide/workforce based calculations incorporate all of the above components and is thus a more accurate reflection of the unemployment position. Generally,both rates have been used but in assessing intra-regional variations only wide-based rates have been utilised.

Time Series Analysis

It has already been mentioned that the data used in this section has not been adjusted to take account of seasonal factors. When comparing the unemployment situation in January 1991 with that which prevailed in January of last year, this is not problematic. However, it is also desirable to look at movements which have occurred within periods of less than a year and this can give rise to difficulties regarding data compatibility. By analysing a time-series of unadjusted unemployment totals, a picture of the seasonal troughs and peaks in the Scottish labour market should emerge thereby circumventing this problem. It should then be possible to separate out seasonal swings in unemployment from underlying trends within time periods of less than twelve months.

Table 1 presents information on the unemployment situation in Scotland over the twelve months to January 1991. During that period, the workforce-based unemployment rate has fallen from 8.7% to 8.5% overall but the pace and direction of this change has been far from steady. The January 1990 rate is a 0.2% increase on the December figure of the previous year. From February to June, unemployment was on the decline with the most substantial fall occurring between April and May (when the rate fell by 0.4%). However July saw a 0.3% increase in the workforce based rate and although there was not an increase between July and August nor was there a decline. September and October saw modest falls in the percentage of the workforce unable to secure employment. November to January however, has seen the trend reversed. In November, the unemployment rate was 0.1% higher than the previous month. The monthly increase in December was 0.3% and in January 0.4%. It has been established in previous Commentaries that seasonal influences would appear to result in falls in unemployment between April and May and August and October but increases between December and January and June and July. Whilst the latest set of figures does not contradict this observation, the scale of recent increases surpasses that of previous years implying a worsening of unemployment situation. Between October and November 1989, the unemployment rate fell by 0.1%, but in the same period twelve months later a rise of 0.1% was noted. Between November and December and December and January last year, there were respective rises of 0.1% and 0.2%. This year the corresponding figures are 0.3% and 0.4%. This suggests that the underlying trend for unemployment in Scotland is one of increase.

The proportional change in unemployment totals between each month is also indicated in Table 1. Not surprisingly, these broadly mirror the movements noted for unemployment rates. The greatest reduction in monthly totals occurred between April and May with a proportional decline

Table 1 **Unemployment Totals - Unadjusted Times Series, Scotland**

	Unemployment Rate (%)	Total	% Change on Previous Month	Male	% Change on Previous Month	Female	% Change on Previous Month
1990 Jan	8.7	219,176	+3.0	159,880	+2.8	59,296	+3.5
Feb	8.6	215,701	-1.6	157,314	-1.6	58,387	-1.5
Mar	8.4	210,102	-2.6	153,811	-2.2	56,291	-3.6
Apr	8.2	205,905	-2.0	150,977	-1.8	54,927	-2.4
May	7.8	196,542	-4.4	145,234	-3.8	51,308	-6.6
Jun	7.7	193,767	-1.4	142,657	-1.8	51,110	-0.4
Jul	8.0	201,439	+4.0	145,101	+1.7	56,338	+10.2
Aug	8.0	200,926	-0.3	144,454	-0.4	56,472	-0.2
Sep	7.8	195,078	-2.9	143,881	-0.4	51,197	-9.3
Oct	7.7	192,956	-1.1	143,527	-0.2	49,429	-3.5
Nov	7.8	195,679	+1.4	145,942	+1.7	49,737	+0.6
Dec	8.1	202,950	+3.7	152,001	+4.2	50,949	+2.4
1991 Jan	8.5	212,661	+4.8	158,840	+4.5	53,821	+5.6

Source: Department of Employment

of 4.4%. At the other end of the spectrum, a 4.8% rise occurred between January 1991 and December 1990. With the 3.7% proportional rise for December and the 1.4% increase for November this tends to confirm that the unemployment trend which was described in the last Commentary as remaining downwards albeit at a slower pace, has now changed direction.

This view is confirmed to a degree by comparing changes in male and female unemployment totals. The female labour force participates in seasonal employment to a greater degree than their male counterparts and thus are subject to greater variation in monthly unemployment totals. However, between November and January, male unemployment totals also experienced increases of between 1.7% and 4.5%. If the increases in unemployment were attributable to seasonality then most of the change would be reflected in the female figures. However, since the male figures are recording substantial increases as well, this reinforces the suggestion that unemployment is fundamentally rising.

Total Unemployment

Table 2 shows for each local authority region and island, and for Scotland as a whole, the narrow and wide unemployment rate, the numbers unemployed in January 1990 and 1991 and the change which has occurred over the twelve months. Quarterly and monthly changes are also indicated but the utilisation of unadjusted data means that careful interpretation of these short-term shifts is required. While they may be indicative of developing trends, they are more useful for the purposes of drawing inter-authority comparisons.

In the year to January 1991, Scottish unemployment fell by 6,515, a 3.0% drop to stand at 212,661. This represents 8.5% of the workforce or 9.7% of the narrowly-defined labour force, an improvement on the corresponding 8.8% and 10.0% of January 1990. However, during the month and quarter preceding January, increases in unemployment were evident. Between October and January, there was a 10.2% increase in the numbers out of work, a rise of 19,705. The corresponding increase between December and January is 4.8%, a rise of 9,711.

With the exception of Lothian and Central, all local authorities experienced declines in unemployment totals. Shetland witnessed the most substantial fall with unemployment in January 1991 some 14.9% less than in January 1990. In Grampian

Table 2: Unemployment by Region

	% rate Jan 91 Narrow	% rate Jan 91 Wide	Total Jan 91	Total Jan 90	Total Annual Change	% Change in Annual Totals	Total Oct 90	Total Quarterly Change	% Change in Quarterly Totals	Total Dec 90	Total Monthly Change	% Change in Monthly Totals
Borders	5.9	4.8	2,386	2,432	-46	-1.9	1,744	+642	+36.8	2,172	+214	+9.9
Central	10.7	9.3	11,175	10,956	+219	+2.0	10,087	+1,088	+10.8	10,589	+586	+5.5
Dumfries & Galloway	8.4	6.8	4,815	4,933	-118	-2.4	4,152	+663	+16.0	4,372	+443	+10.1
Fife	10.2	8.9	12,978	13,415	-437	-3.3	11,827	+1,151	+9.7	12,357	+621	+5.0
Grampian	4.3	3.7	10,192	11,296	-1,104	-9.8	8,772	+1,420	+16.2	9,395	+797	+8.5
Highland	10.3	8.5	8,518	8,892	-374	-4.2	7,058	+1,460	+20.7	8,259	+259	+3.1
Lothian	7.6	6.8	27,965	27,037	+928	+3.4	25,071	+2,894	+11.5	26,759	+1,206	+4.5
Strathclyde	12.0	10.6	117,089	122,328	-5,239	-4.3	108,710	+8,379	+7.7	112,404	+4,685	+4.2
Tayside	8.9	7.7	15,174	15,317	-143	-0.9	13,353	+1,821	+13.6	14,345	+829	+5.8
Orkney Is.	6.9	4.9	478	519	-41	-7.9	423	+55	+13.0	461	+17	+3.7
Shetland Is.	3.4	2.8	354	416	-62	-14.9	345	+9	+2.6	340	+14	+4.1
Western Is.	14.4	11.0	1,537	1,635	-98	-6.0	1,414	+123	+8.7	1,497	+40	+2.7
Scotland	9.7	8.5	212,661	219,176	-6,515	-3.0	192,956	+19,705	+10.2	202,950	+9,711	+4.8

Source: Department of Employment

Table 3: Male Unemployment by Region

	% rate Jan 91 Narrow	% rate Jan 91 Wide	Total Jan 91	Total Jan 90	Total Annual Change	% Change in Annual Totals	Total Oct 90	Total Quarterly Change	% Change in Quarterly Totals	Total Dec 90	Total Monthly Change	% Change in Monthly Totals
Borders	7.9	5.9	1,722	1,674	+48	+2.9	1,262	+460	+36.5	1,562	+160	+10.2
Central	14.7	12.2	8,193	7,765	+428	+5.5	7,109	+1,084	+15.2	7,747	+446	+5.8
Dumfries & Galloway	10.5	7.6	3,226	3,190	+36	+1.1	2,823	+403	+14.3	2,945	+281	+9.5
Fife	13.9	11.5	9,467	9,465	+2	-	8,530	+937	+11.0	9,008	+459	+5.1
Grampian	5.4	4.4	7,135	7,683	-548	-7.1	6,035	+1,100	+18.2	6,615	+520	+7.9
Highland	13.0	10.0	5,824	5,957	-133	-2.2	5,111	+713	+14.0	5,588	+236	+4.2
Lothian	11.1	9.4	21,121	19,934	+1,187	+6.0	18,885	+2,236	+11.8	20,302	+819	+4.0
Strathclyde	16.8	14.1	89,585	91,656	-2,071	-2.3	82,666	+6,919	+8.4	86,272	+3,313	+3.8
Tayside	12.0	9.7	10,855	10,681	+174	+1.6	9,520	+1,335	+14.0	10,311	+544	+5.3
Orkney Is.	8.7	5.4	312	352	-40	-11.4	288	+24	+8.3	302	+10	+3.3
Shetland Is.	4.1	3.1	240	269	-29	-10.8	230	+10	+4.3	231	+9	+3.9
Western Is.	20.1	13.6	1,160	1,254	-94	-7.5	1,068	+92	+8.6	1,118	+42	+3.8
Scotland	9.7	11.1	158,840	159,880	-1,040	-0.7	143,527	+15,313	+10.7	152,001	+6,839	+4.5

Source: Department of Employment

and Orkney respective falls of 9.8% and 7.9% were recorded. A minimal decline of 0.9% is evident in Tayside. Lothian experienced a 3.4% increase in the numbers out of work in the twelve months to January but Central with a 2.0% rise only fared a little better. Changes in sub-Scottish unemployment totals reveals considerable disparities in the fortunes of local labour markets but analysis of unemployment rates confirms this.

Variation is greatest amongst the island authorities with the unemployment rate in the Western Isles (11.0%) some 3.93 times higher than that of Shetland (2.8%) and 2.24 times the rate in Orkney (4.9%). This is a reflection of the unique economic characteristics affecting the island areas with oil-related activities exerting considerable downward pressure on the unemployment totals in Orkney and Shetland but having negligible impact on the Western Isles. Grampian Region has also benefited from North Sea oil employment and exhibits the lowest unemployment rate of mainland Scotland at 3.7%. This however is a 0.5% increase on the 3.2% reported last Commentary. In terms of unemployment rate, the Borders is also comparatively healthy with only 4.8% of the workforce unable to secure employment. Unlike the other low unemployment areas, there is not a concentration of employment in the high-earning oil-related sector but rather an above average proportion of employees in low-earning agriculture and the fragile textiles industry. In October 1990, the unemployment rate in the Borders was only 3.5% so this quarter's 4.8% represent a significant worsening of the unemployment situation in this part of Scotland.

On the mainland, as a percentage of the workforce, unemployment is greatest in Strathclyde at 10.6% but Central and Fife with rates of 9.3% and 8.9% are also faring poorly compared with the 8.5% Scottish average. The same broad pattern is apparent in analysis of the narrow rates with Shetland's 3.4% and the Western Isles' 14.4% marking the extremes.

The differential between the wide and the narrow unemployment rates is greatest in the Western Isles where 3.4% separates them. In Orkney the difference is 2.0%, in Highland 1.8% and in Dumfries and Galloway 1.6%. The difference between the wide and narrow unemployment rate is the number who are self-employed, in HM Forces or on government-related training programmes. The authorities with significant differentials are rural and thus the bigger gaps are likely to reflect the concentration of agricultural and fishing activity characteristic to rural Scotland and the higher levels of self-employment associated with these industries. In the Western Isles however, it is also likely to reflect the generally higher levels of unemployment and hence increased participation in government-related training programmes, only included in the wider workforce count. The converse argument explains the small differences in the low unemployment areas of Grampian (0.6%) and the Shetland Islands (0.6%).

Turning attention to quarterly movements, unlike the last Commentary when "the majority of authorities saw decreases in unemployment totals", this quarter, all authorities saw rises in the numbers out of work between October 1990 and January 1991. The extent of these rises however, is not uniform. The smallest proportional increases were experienced in Shetland (2.6%), Strathclyde (7.7%) and the Western Isles (8.7%). Highland and the Borders fared very poorly with increases of 20.7% and 36.8% respectively. Part of this rise can be attributed to seasonal employment in tourism and agriculture in these areas but not all of it. Twelve months ago, the Highlands and Borders only saw rises of 16.4% and 16.5% suggesting that the unemployment situation in these areas is deteriorating.

Between December and January, all authorities saw their unemployment totals increasing. Dumfries and Galloway experienced the most substantial increase of 10.1% but Borders was only a little way behind with a rise of 9.9%. Increases in excess of the 4.8% Scottish average were evident in Tayside (5.8%), Central (5.5%) and Fife (5.0%). The Western Isles experienced the smallest increase of 2.7% with Highland (3.1%) and the Orkney Islands (3.7%) also recording increases of less than 4.0%.

The analysis of sub-Scottish data suggests that the long-term unemployment trend is now increasing. However, the rate of increase varies considerably throughout Scotland.

Male Unemployment

Information on the unemployment situation in the male labour market is presented in Table 3. As can be seen from the table, in the twelve months

Table 4: Female Unemployment by Region

	% rate Jan 91 Narrow	Wide	Total Jan 91	Total Jan 90	Total Annual Change	% Change in Annual Totals	Total Oct 90	Total Quarterly Change	% Change in Quarterly Totals	Total Sep 90	Total Monthly Change	% Change in Monthly Totals
Borders	3.5	3.2	664	758	-94	-12.4	482	+182	+37.8	610	+54	+8.9
Central	6.1	5.7	2,982	3,191	-209	-6.5	2,978	+4	+0.1	2,842	+140	+4.9
Dumfries & Galloway	6.0	5.5	1,589	1,743	-154	-8.8	1,329	+260	+19.6	1,427	+162	+11.4
Fife	6.0	5.5	3,511	3,950	-439	-11.1	3,297	+214	+6.5	3,349	+162	+4.8
Grampian	2.9	2.7	3,057	3,613	-556	-15.4	2,737	+320	+11.7	2,780	+277	+10.0
Highland	7.0	6.4	2,694	2,935	-241	-8.2	1,947	+747	+38.4	2,671	+23	+0.9
Lothian	3.9	3.7	6,844	7,103	-259	-3.6	6,186	+658	+10.6	6,457	+387	+6.0
Strathclyde	6.3	5.9	27,504	30,672	-3,168	-10.3	26,044	+1,460	+5.6	26,132	+1,372	+5.3
Tayside	5.4	5.1	4,319	4,636	-317	-6.8	3,833	+486	+12.7	4,034	+285	+7.1
Orkney Is.	5.0	4.2	166	167	-1	-0.6	135	+31	+23.0	159	+7	+4.4
Shetland Is.	2.5	2.3	114	147	-33	-22.4	115	-1	-0.9	109	+5	+4.6
Western Is.	7.7	7.0	377	381	-4	-1.0	346	+31	+9.0	379	-2	-0.5
Scotland	5.4	5.0	53,821	59,296	-5,475	-9.2	49,429	+4,392	+8.9	50,949	+2,872	+5.6

Source: Department of Employment

Table 5: **Registered Vacancies by Region**

	Jan 1991 Exc. C.O.s*	Jan 1991 Total	Oct 1990 Exc. C.Os*	Oct 1990 Total	Quarterly Change % Exc. C.Os*	Quarterly Change % Total	Total Jan 90	Annual Change %
Borders	469	485	462	485	+1.5	-	430	+12.8
Central	784	795	1,336	1,341	-41.3	-40.7	1,268	-37.3
Dumfries & Galloway	663	680	630	642	+5.2	+5.9	435	+56.3
Fife	704	721	1,083	1,111	-35.0	-35.1	912	-20.9
Grampian	1,579	1,778	3,230	3,399	-51.1	-47.7	3,283	-45.8
Highland	738	760	1,130	1,155	-34.7	-34.2	947	-19.7
Lothian	1,983	2,205	3,105	3,488	-36.1	-36.8	2,591	-14.9
Strathclyde	7,816	7,954	11,237	11,418	-30.4	-30.3	9,737	-18.3
Tayside	703	725	1,567	1,601	-55.1	-54.7	1,130	-35.8
Orkney Is.	56	62	80	98	-30.0	-36.7	66	-6.1
Shetland Is.	62	76	66	73	-6.1	+4.1	65	+16.9
Western Is.	60	60	125	125	-52.0	-52.0	46	+30.4
Scotland	15,617	16,301	24,047	24,936	-35.1	-34.6	20,910	-22.0

* Excluding vacancies notified to Careers Offices

Source: Department of Employment

to January 1991, male unemployment in Scotland fell by 1,040, to stand at 158,840. This 0.7% drop has caused a further reduction in the male unemployment rate. The narrow measure stands at 11.1% compared with the 12.1% reported in the last Commentary. For the wider based measure of unemployment, January's rate is 9.7% compared with October's 10.0%. The quarterly and monthly male unemployment changes are both positive. Between October and January, male unemployment rose by 15,313, a proportional increase of 10.7%. The number of males out of work between December and January rose by 6,839 or 4.5%. There is thus evidence of an underlying increasing trend in male unemployment.

Considering annual changes, mixed fortunes were evident amongst local authorities. Five authorities saw male unemployment increase, six witnessed decreases and the change in Fife was negligible. Of those experiencing rises in males +out of work, the magnitude of increases ranged from 6.0% in Lothian and 5.5% in Central to 1.6% in Tayside and 1.1% in Dumfries and Galloway. The most substantial decreases were evident in the Orkney Islands (-11.4%) and Shetland (-10.8%). The smallest proportional decreases occurred in Highland (-2.2%) and Strathclyde (-2.3%).

Despite an annual 2.3% drop in male unemployment totals Strathclyde remains the local authority area with the highest (wide) unemployment rate with 14.1% of the male workforce out of employment. However, the Western Isles with a rate of 13.6% is only a little way behind. Unemployment rates in excess of the 11.1% Scottish male average were also noted for Central (12.2%) and Fife (11.5%). Constrastingly, notably low rates were evident in Shetland (3.1%), Grampian (4.4%), Orkney Islands (5.4%) and the Borders (5.9%). A similar pattern exists for the narrow-based calculations of unemployment rate except that the Western Isles have replaced Strathclyde as the region with the highest male unemployment rate with some 20.1% of its males out of work.

During the quarter to January 1991, increases in male unemployment were evident throughout. The

Borders again saw the most substantial rise with an increase in male unemployment of 36.5%. Grampian experienced an 18.2% rise, Central an increase of 15.2% and in Dumfries and Galloway, 14.3% more males were unemployed in January compared with October. Shetland witnessed the smallest increase (4.3%) but rises of less than the 10.7% Scottish norm were recorded for Orkney (8.3%), Strathclyde (8.4%) and the Western Isles (8.6%).

Disparity is less evident in the monthly changes in male unemployment. All authorities saw the numbers of males out of work rise ranging from 3.3% in Orkney and 3.8% in Strathclyde and the Western Isles to 10.2% in the Borders and 9.5% in Dumfries and Galloway. If we consider that these changes are for one month only, the evidence appears to be of a worsening unemployment situation.

Female Unemployment

Table 4 contains information on the female unemployment position. Over the past twelve months, female unemployment in Scotland fell by 5,475 to stand at 53,821. This represents 5.0% of the total female workforce or 5.4% of the narrowly defined labour force. These rates are well below the overall Scottish unemployment rates of 8.5% and 9.7% but since the corresponding figures in the last COmmentary were 4.6% and 4.9% there has been a worsening of the female unemployment situation.

In the year to January 1991, there were decreases in the number of females out of work in all areas. Shetland saw the biggest decline with 22.4% fewer of its females unemployed in January this year compared with last. In Grampian,the decline was 15.4% and in the Borders 12.4%. At the opposite end of the spectrum, over the year to January,only one female fewer is unemployed in Orkney, although this did represent a 0.6% decline. In the Western Isles, in absolute terms, 4 fewer females were out of work but this represented 1.0% of the January 1990 total. A small decrease was also noted in Lothian where a fall of 3.6% was recorded.

With the exception of Shetland, all local authority areas saw increases in female unemployment during the quarter preceding January. Considerable variation however is evident in the scale of these change. In the Highlands and the Borders substantial rises of 38.4% and 37.8% were experienced but Orkney (23.0%) and Dumfries and Galloway (19.6%) witnessed not insubstantial increases. In contrast, in Central, only 4 more female were out of work in January compared with October but modest increase of 5.6% and 6.5% were noted for Strathclyde and Fife. Shetland saw a quarterly decline in female unemployment of 0.9% but this did in fact only represent 1 person.

Between December and January, excluding the Western Isles, there were increases in unemployment totals in all areas of Scotland varying from 0.9% in Highland and 4.4% in Orkney to 11.4% in Dumfries and Galloway and 10.0% in Grampian. In the Western Isles, a modest decrease of 2 or 0.5% of the December total occurred.

The difference between the wide and the narrow unemployment rate is much less for female unemployment than was the case for males reflecting the higher levels of self-employment and HM Forces amongst the latter group. Considering the wide rate, unemployment is lowest in Shetland where only 2.3% of the female labour force is seeking work. Grampian, the Borders and Lothian are only a little behind with respective rates of 2.7%, 3.2% and 3.7%. The Western Isles continues to have the highest rate with 7.0% females out of work but a relatively high female rate is also evident in the Highlands (6.4%).

It is important to remember that the analysis is confined to recorded or notified unemployment. It is quite likely that there are many females who are not counted as unemployed but who would enter the labour market should a job be available.

Vacancy Levels

Table 5 indicates registered vacancies for local authority areas. The data relates to unfilled vacancies notified to Job Centres and Careers Offices. The former mainly deals with opening for the over 18s whilst Careers Offices handle opportunities for young persons under 18 years of age. Since the latter group are now excluded from registering as unemployed following the extension of a guarantee of a place on a training programme, we continue to calculate a separate vacancy count which excludes vacancies notified to Careers Offices since this allows the generation of a more meaningful unemployment/vacancy ratio.

Vacancies are usually notified to either Job Centres or Careers Offices but may occasionally be notified to both services or to more than one Job Centre and thus may be included in more than one vacancy count. Consequently, there is likely to be some incidence of measurement error. Nationally, only about one-third of vacancies are notified to Job Centres and Careers Offices and these tend to be for lower paid and lower skilled jobs. Hence from published vacancy data, a complete picture of the current demand for labour cannot be formulated.

In January of this year in Scotland, there were 16,301 notified vacancies of which 684 (4.2%) were openings for young persons under 18. This was a 22.0% decline on vacancy levels a year ago. Indeed, during the quarter preceding January, the total number of vacancies declined by 34.6% and by 35.1% when vacancies notified to Careers Offices are excluded.

Analysing annual changes in vacancy levels amongst Scottish local authorities reveals mixed fortunes. Four authorities saw their vacancy levels increase between January 1990 and January 1991: Borders (+12.8%); Shetland (+16.9%); Western Isles (+30.4%) and Dumfries and Galloway (+56.3%). Of the eight authorities witnessing annual decrease in their vacancy levels in only three was the magnitude greater than the -22.0% Scottish norm; Tayside (-35.8%); Central (-37.3%) and Grampian (-45.8%).

Comparing vacancy levels in January 1991 and October 1990, most authorities saw a decline. Considering total vacancies, the Borders saw no change and the Shetland Islands and Dumfries and Galloway experienced modest increases of 4.1% and 5.9% respectively. The authorities recording declines all saw substantial changes ranging from 30.3% in Strathclyde and 34.2% in Highland to 52.0% in Western Isles and 54.7% in Tayside.

By relating the level of vacancies to the level of unemployment, a broad indication of the number of registered unemployed people competing for each vacancy can be gleaned. However, since registered vacancies represent only a proportion of the total number of unfilled vacancies, the real unemployment/vacancy ratio will be lower than indicated in Table 6. This effect will be partly offset by the fact that not only registered unemployed people are likely to be competing for the vacancies. Cautious interpretation of U/V ratios is however required.

In January 1991, the Scottish U/V ratio excluding vacancies notified to Careers Offices was 13.62 and including the latter component 13.06. The corresponding figures for October 1990 were 8.02 and 7.74. This worsening of situation reflects the fact that unemployment has risen and vacancy levels have declined. It is thus not surprising to see more unemployed people competing for each job. Compared with the situation in January 1990 there has also been a deterioration. Within Scotland, the ratio is lowest in the Borders at 5.09 but comparatively low rates were evident in Shetland (5.71), Grampian (6.45), Dumfries and Galloway (7.26) and the Orkney Islands (8.54). At the opposite extreme, notably high ratios were calculated for Fife (18.43), Tayside (21.58) and the Western Isles (25.62).

Table 6: Unemployment/Vacancy (U/V) Ratios by Region

	Jan 1991 Exc. C.O.s*	Jan 1991 Total	October 1990 Exc. C.O.s*	October 1990 Total	Jan 1990 Total
Borders	5.09	4.92	3.77	3.60	5.66
Central	14.25	14.06	7.55	7.52	8.64
Dumfries & Galloway	7.26	7.08	6.59	6.47	11.34
Fife	18.43	18.00	10.92	10.65	14.71
Grampian	6.45	5.73	2.72	2.58	3.44
Highland	11.54	11.21	6.25	6.11	9.39
Lothian	14.10	12.68	8.07	7.18	10.43
Strathclyde	14.98	14.72	9.67	9.52	12.56
Tayside	21.58	20.93	8.54	8.34	13.55
Orkney Is.	8.54	7.71	5.29	4.32	7.86
Shetland Is.	5.71	4.66	5.23	4.73	6.40
Western Is.	25.62	25.62	11.31	11.31	35.54
Scotland	13.62	13.06	8.02	7.74	10.48

* Vacancies notified to Careers Offices

Source: Department of Employment

Between October and January, except in the Shetland Isles, all authorities saw an increase in their unemployment/vacancy ratios with the most dramatic rises occurring in the Western Isles

(11.31 to 25.62) and Tayside (8.54 to 21.58). In Shetland, the U/V ratio excluding vacancies notified to Careers Offices also rose in the three months preceding January. However, the measure constructed using total notified vacancies was 4.66 in January compared with 4.73 in October. Comparing January 1990's U/V ratios with those of January 1991, little coherent pattern in movements is apparent reflecting both the non-systematic changes in unemployment and fluctuations in vacancy levels.

Intra-Regional Variations

It is clear from the foregoing analysis that there are significant variations in the fortunes of regional labour markets located throughout Scotland. However, within these local authority boundaries, disparities also occur. This section is intended to consider such intra-regional variations in unemployment. The data used to this end relates to travel-to-work areas (TTWAs). A TTWA is the smallest unit for which unemployment rates are calculated and it is an approximation to a self-contained labour market where most commuting to and from work occurs within the TTWA boundary. In mainland Scotland, there are 57 TTWAs. Each island area is classed as a TTWA and hence disparities which occur within Orkney, Shetland and the Western Isles cannot be drawn from the TTWA statistics. They are thus excluded from the following two tables.

Table 7 indicates the number of TTWAs contained in each region and the number of these with unemployment rates in excess of the Scottish and regional averages. If the majority of a region's TTWAs have unemployment rates about the Scottish average then this is an indication of a general high unemployment area such as Central, Fife or Strathclyde. The converse also holds with the Borders and Grampian serving well to illustrate such an instance. In the former area, none of the region's five TTWAs have unemployment rates in excess of the average for Scotland.

Comparing the unemployment rates in TTWAs with the regional average is useful in identifying sub-regional areas with significantly above or below average unemployment. If the majority of a region's TTWAs have rates in excess of the regional average then this indicates the presence of a few areas, possibly even one, with below average unemployment. Grampian is again useful for illustrating such a case with eight of its nine TTWAs having rates in excess of the 3.7% regional average. It is the large, low-rate TTWA of Aberdeen (2.9%) which is pulling down the Grampian figure.

Table 7: TTWAs with Unemployment Rates above the Scottish and Regional Average, October 1990

	No. of TTWAs	No. above Scottish Average+	No. above Regional Average+
Borders	5	0 (0)	3 (3)
Central	3	2 (2)	2 (2)
Dumfries & Galloway	7	3 (3)	3 (3)
Fife	3	2 (2)	2 (2)
Grampian	9	1 (1)	8 (7)
Highland	8	5 (3)	5 (5)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	9 (8)	5 (5)
Tayside	7	2 (2)	2 (2)
Scotland	57	25 (22)	31 (30)

\+ Figures in brackets refer to the situation last quarter (October 1990).

Source: Department of Employment

Further indicators of the intra-regional distribution of unemployment can be gleaned from comparisons of the highest and lowest TTWA unemployment rate found in each region as indicated in Table 8. The range of rates witnessed in each region and the ratio of highest to lowest rates has been calculated.

Dumfries and Galloway continues to be the region exhibiting the biggest range in rates with the unemployment rate in Cumnock and Sanquhar some 11.2% higher than the rate in Dumfries. The differential is lowest in the Borders where the percentage of the workforce out of work in Galashiels is 3.4% lower than the proportion unemployed in Peebles. At the time of the last Commentary the figures for these authorities were 10.7% and 2.5% suggesting a widening in the range of unemployment rates and hence more marked disparity within regions.

Table 8 TTWAs with highest and lowest unemployment rates, January 1991

		Unemployment Rates+		High - Low+		High/Low+	
Borders	H Peebles	7.3	(5.4)	3.4	(2.5)	1.87	(1.86)
	L Galashiels	3.9	(2.9)				
Central	H Alloa	11.5	(10.8)	4.4	(4.4)	1.62	(1.69)
	L Stirling	7.1	(6.4)				
Dumfries & G/way	H Cumnock & Sanquhar	16.7	(14.9)	11.2	(10.7)	3.04	(3.55)
	L Dumfries	5.5	(4.2)				
Fife	H Kirkcaldy	9.7	(8.9)	4.1	(4.3)	1.73	(1.93)
	L North East Fife	5.6	(4.6)				
Grampian	H Forres	11.1	(7.9)	8.2	(5.3)	3.83	(3.04)
	L Aberdeen	2.9	(2.6)				
Highland	H Sutherland	14.0	(10.8)	7.8	(5.8)	2.26	(2.16)
	L Inverness	6.2	(5.0)				
Lothian	H Bathgate	10.3	(8.7)	4.7	(3.9)	1.84	(1.81)
	L Haddington	5.6	(4.8)				
Strathclyde	H Greenock	13.7	(12.3)	6.7	(8.0)	1.96	(2.86)
	L Oban	7.0	(4.3)				
Tayside	H Arbroath	10.5	(8.4)	5.6	(4.5)	2.14	(2.15)
	L Crieff	4.9	(3.9)				

\+ Figures in bracket refer to the situation last quarter (October 1990)

Source: Department of Employment.

The ratio of high to low unemployment rates is greatest in Grampian with unemployment in Forres some 3.83 times greater than is the case in Aberdeen. A ratio in excess of 3 was also noted for Dumfries and Galloway (3.04). The ratio is lowest in Central at 1.62.

The foregoing analysis shows that there is considerable disparity in unemployment situation not only between authorities but also within them.