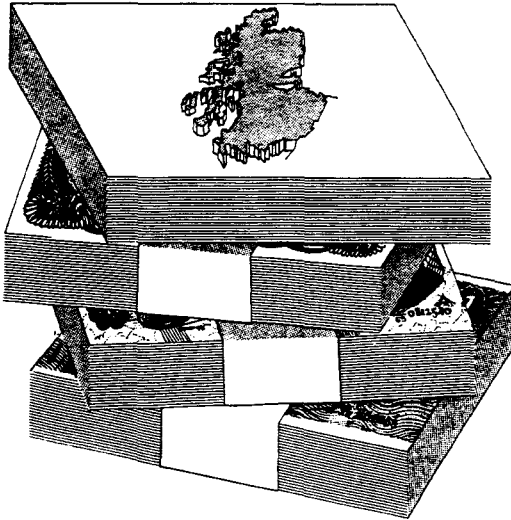


THE SCOTTISH ECONOMY



SHORT-TERM FORECASTS*

In the previous Commentary, we correctly forecasted a further fall in the seasonally adjusted Scottish output index for production industries (Division 1 to 4 of the 1980 SIC) for the second quarter this year. But the extent of the fall was not fully picked up by the forecasting equation. The latest news release (10 November) by the Scottish Office shows a 2.9% fall in output in the second quarter.

In the present forecast, we carried out a thorough test for unit roots and co-integration in the expanded time series used in our forecasting equation. After inserting seven lags of the first differences in the augmented Dicky-Fuller (ADF) test, it could not be rejected that both the Scottish and UK output indices are $I(1)$ variables. Moreover, the null hypothesis of non-cointegration between the Scottish and UK output indices could not be rejected. We therefore adopted an unrestricted vector autoregression of the change in Scottish output on seven lags of UK and Scottish output changes plus the lagged levels of Scottish and UK output. It turned out that only the fifth to the seventh lags of Scottish output are significant. The final equation showed a reasonable fit and passed all the diagnostic tests for serial correlation, functional form, normality and heteroscedasticity.

Figure 1 shows movements in the actual output index and in the fitted index over the period of 1985 Q1 to 1992 Q2, and also shows forecasts for the period 1992 Q2 to 1993 Q4. Further details of the actual and projected indices are shown in Table 1. The Scottish output index is forecasted to fall again in the third and final quarters,

and the recovery is postponed from the final quarter this year as previously predicted to the second quarter next year. For 1992 as a whole, the Scottish output is predicted to be down by 1.4%, followed by a modest recovery of 0.5% in 1993.

TABLE 1 INDEX OF PRODUCTION
(SIC DIVS. 1-4)

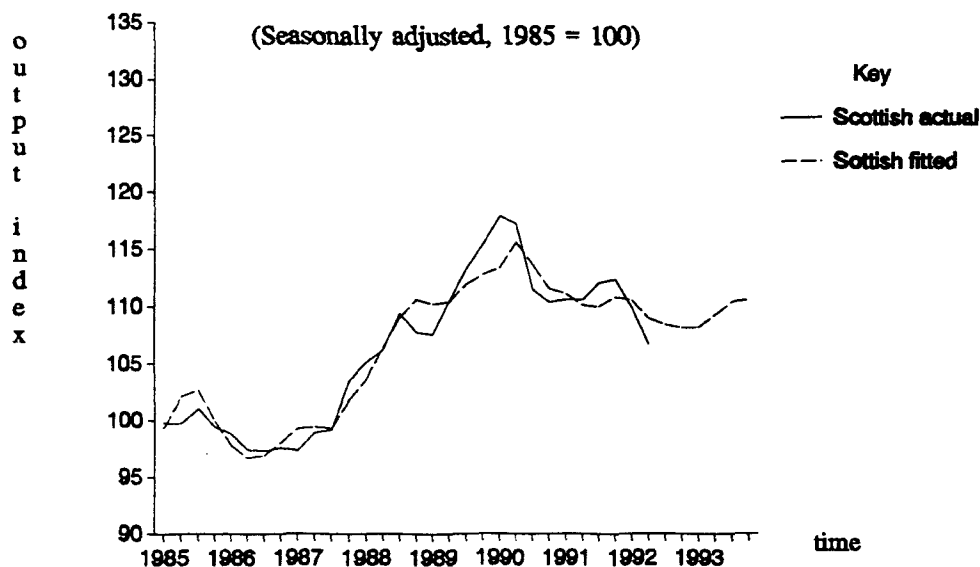
	Actual	FAI Model
1990	114.3	113.6
1991	111.4	110.5
1992	-	109.0
1993	-	109.6
1991 Q1	110.6	111.1
Q2	110.6	110.1
Q3	112.1	110.0
Q4	112.4	110.9
1992 Q1	109.9	110.6
Q2	106.7	109.0
forecast		
Q3	-	108.4
Q4	-	108.2
1993 Q1	-	108.2
Q2	-	109.3
Q3	-	110.4
Q4	-	110.6
%Change		
1991/90	-2.5	-2.7
1992/91	-	-1.4
1993/92	-	0.5
91Q4/90Q4	1.8	-0.6
92Q4/91Q4	-	-2.4
93Q4/92Q4	-	2.2

* Development of the short-term model of the economy was made possible by the funding of a three-year research fellowship by TSB Bank Scotland.

The present forecast was made in a time which witnessed some dramatic events in the UK economy. This makes the short-term prospect of UK and Scottish output performance very uncertain and the forecast difficult. The latest CBI survey and the Scottish Chambers Business Survey all show a major deterioration in business

Output Index for Production Industries

(Seasonally adjusted, 1985 = 100)



confidence, expected sales and new orders in the second part of this year. However, since our current forecasting equation has not incorporated such survey information or any expectational element yet, we suspect that our forecast of a fall in Scottish industrial output of 1.4% in this year would tend to be a bit too optimistic.

THE SCOTTISH CHAMBERS' BUSINESS SURVEY

The SCBS, which is conducted by Strathclyde University's Fraser of Allander Institute in conjunction with the Chambers of Commerce of Aberdeen, Central, Dundee, Edinburgh, Fife and Glasgow, is the most comprehensive regular survey of business, employment and other issues affecting the Scottish business community. In the present survey, for the third quarter of 1992, which was conducted during September both before and after Britain's withdrawal from the ERM, 1336 firms responded to the questionnaire.

BUSINESS PERFORMANCE

Business confidence

In Manufacturing the balance of optimism deteriorated appreciably in the third quarter, with a net balance of 26% of respondents reporting that they were *less* optimistic than three months previously. In the second quarter 1992, a net balance of 7% of respondents reported that they were *more* optimistic than they were in the preceding quarter. This collapse in business confidence in manufacturing reversed the previous upward trend where optimism had been rising since the third quarter 1991.

Manufacturing respondents were also significantly less optimistic than they were in the same period a year ago with a net balance of 29% of respondents reporting lower optimism. This compares with a zero balance in the second quarter.

In Construction, a net balance of 35% of respondents were less optimistic than in the preceding quarter. Confidence continued to decline and at a significantly faster rate than in the second quarter 1992 where a balance of 21% of respondents reported that they were less optimistic than three months earlier. A net balance of 54% of respondents reported that they were less optimistic than they were a year ago; a deterioration of 32 percentage points on the response in the second quarter.

In Distribution, confidence also collapsed. In Retailing, a net balance of 24% reported a decrease in optimism over the previous three months; this can be compared with the positive balance of 9% recorded in the first quarter. In Wholesaling, a net balance of 44% of firms were less optimistic, compared with a balance of 5% who were more optimistic in the first quarter. Both retailers and wholesalers reported a major decline in confidence compared with the same period a year ago, with net balances of 26% and 57%, respectively, reporting decreased optimism. In the second quarter, a net balance of 15% of retailers were more optimistic than a year ago, while for wholesaling 1% were less optimistic.

Optimism amongst respondents from the Tourism and Leisure sector also fell dramatically in the third quarter.

A net balance of 18% of respondents reported that they were less optimistic about the general business situation than they were three months earlier, compared with a balance of 12% in the second quarter who reported that they were more optimistic. Similarly, optimism over a year ago has declined from a net balance of 6% more optimistic in the second quarter to a balance of 27% less optimistic in the present quarter.

Orders and sales

In Manufacturing, orders and sales appeared to be falling again after the apparent increase in the second quarter. For orders, a net balance of 12% reported a decrease while, for sales, a balance of 9% of firms experienced a decline. These figures compare with positive balances of 2% and 1%, respectively, in the previous quarter. The decline in orders and sales occurred in all markets. Export orders and sales which, on balance, were positive in the second quarter, declined in the third quarter, and the same turn around also occurred in sales to the Scottish market. Nevertheless, export markets remained the most buoyant, while, unlike the previous quarter, there was little to distinguish the Scottish and rest of the UK markets in the extent to which demand was depressed.

In Construction, orders continue to decline but at a much faster rate than recorded in the second quarter, with a balance of 42% reporting lower orders compared with 25% in the previous quarter. Orders from Central Government continued to be the most depressed, followed by other Public Sector orders and orders from the Private sector.

The upward trend in Retail sales has now been reversed. A net balance of 11% of retailers reported that sales had fallen, compared with a 12% balance reporting increased sales in the second quarter. In Wholesaling, sales continued to fall and at a markedly faster rate than in the second quarter. A net balance of 24% of respondents reported a decline in sales compared with the 9% balance recorded in the last survey.

Tourism demand contracted in the third quarter with a net balance of 7% of companies reporting a decrease. This represents a reversal of the situation in the second quarter where a net balance of 10% reported an increase in demand. The contraction in demand appeared to have occurred across all markets, with the biggest fall occurring in tourism from the rest of the UK.

Stock adjustments

Stocks of finished goods and raw materials in Manufacturing continued to be run down with net balances of 18% and 18%, respectively, reporting a decline. The rate of contraction has worsened since the second quarter.

Finance and investment

In the Financial sector, the growth in demand for personal loans fell back considerably in the third quarter. A net balance of 12% of respondents reported an increase in personal loans compared with a balance of 33% in the previous quarter and a balance of 2% in the first quarter 1992. Similarly, the balance reporting an increase in advances to the corporate sector fell to 14% following the net positive balances of 26% and 15% in the second and first quarters, respectively. The demand for working capital continued to rise and at a faster rate, suggesting an increase in "distress" borrowing; conversely, the demand for finance for investment in buildings, and plant and equipment continued to decline at a markedly increased rate.

Manufacturing investment intentions in plant and machinery declined considerably in the third quarter with a net balance of 10% of respondents reporting a decrease, compared with the small positive balance of 1% of respondents reporting an increase in the second quarter. There was a further deterioration in manufacturers' investment intentions in land and buildings with a net balance of 14% of respondents reporting a decline compared with 9% in the second quarter. Retailing and Wholesaling revised their investment intentions downward with net balances of 2% and 1%, respectively, reporting an decreased intention to invest in premises compared with the same period a year ago. The investment intentions of Construction respondents continued to decline.

Expectations

Second quarter expectations for the third quarter 1992 were significantly under fulfilled, without exception, in all sectors, and in all categories of activity. Respondents in the second quarter generally failed to anticipate the marked downturn in activity that occurred during the late summer.

Expectations for the fourth quarter 1992 are generally for an outcome which is little better than the outcome in the third quarter. Tourism respondents expect demand to deteriorate further at a faster rate. Retailing and Wholesaling respondents expect further contractions of demand but at a slower rate than in the third quarter. Manufacturers, on the other hand, expect demand to contract at much the same rate as in the third quarter. However, while demand for manufacturing goods is expected to continue to fall in Scottish and rest of the UK markets, export demand is expected to pick up in the fourth quarter.

Chambers of Commerce Areas

Against the background of a marked downturn in demand, the Edinburgh Chamber area was relatively the most buoyant, followed by Glasgow. Aberdeen, Central and Fife performed similarly, while Dundee turned in the

worst performance. Aberdeen continues to perform relatively well in the Distributive trades, but in this quarter performed poorly in Construction, Tourism and Manufacturing. Manufacturing was relatively strong in Central, while Construction turned in the best performance in Fife. Retail and Tourism performance was the strongest in the Glasgow area.

PRIMARY

FISHING

In the period January to September 1992, the volume of landings by UK vessels for each of the major classifications of fish (demersal, pelagic and shellfish) was slightly higher than the corresponding period in 1991. However, the figure for the total value of landings of £189,816,000 was 6% lower: for whilst the price for pelagic fish held constant over the previous year, the price of both demersal and shellfish fell 9%.

For the pelagics, a 7% increase in the weight of landings and a 3% increase in the price of mackerel was matched by identical falls for herring. Given that the 1991 values for landings was slightly larger for mackerel, there is a small increase in the total value for landings in this category.

In the case of shellfish, the largest absolute fall in the value of landings applies to Norway lobsters, declining 14% from £28,345,000 for the first 9 months of 1991 to £24,436,000 for the same period in 1992. This reduction was mainly due to the 11% fall in price, though the weight of landings was also slightly lower. The value of landings for lobsters also fell by almost £700,000. A small number of shellfish species had an increased value of landings: scallops landings, for example, were

£804,000 higher even though price had fallen, and the value of landings of pink shrimps was 86% increased, even though there was a 10% reduction in price.

Whilst the value of landings by UK vessels fell, that of foreign vessels rose by 167%, so that the total landings (UK and foreign boats) in Scotland increased by 9% in weight and fell by only 3% in value terms. Landings by foreign vessels now make up almost 10% by weight and 5% by value of total landings in Scotland.

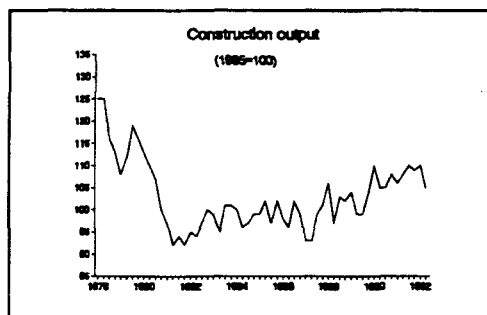
CONSTRUCTION

The recently published Scottish index of construction shows that, in the second quarter of 1992 the index fell by 5.1% to stand at 104.8. It is difficult to make any firm comment on this fall as for the first time the forecast is based on incomplete data at the time of going to press. In the UK as a whole the quarterly fall was 0.8% to 117.5, representing an annual decline of 7.3%, the thirteenth consecutive quarterly fall.

The Scottish Chambers Business Survey (SCBS) for the

third quarter 1992 shows continuing pessimism with business confidence declining for a net 35% of construction respondents. A net of 54% of firms were less optimistic than they were in the third quarter of 1991. There were no geographical redeemers, with all chamber of commerce areas being pessimistic and exhibiting lower optimism on a year ago.

The trend in total construction orders decreased in the three months to September and a balance of 33% of responding firms expect a further deterioration in the fourth quarter. Orders from all sources declined, and respondents anticipate a further decline.



The trend in work in progress declined further in the third quarter and respondents expect this downwards trend to continue. Average capacity utilization fell by a further 3% to 72%, in the third quarter, and a net 42% of firms were utilizing less capacity than in the same period a year ago. Investment continued to be low and negative in plant & equipment and in buildings. Of those firms investing, 58% cited replacement as their motivation. The trend in employment weakened in the third quarter and is expected to remain low during the fourth quarter. Respondents in all areas were on balance shedding labour.

The trends in overtime working declined and the trend in short time working remained broadly level; this pattern is expected to continue in the fourth quarter. Wages increased for 44% of respondents during the survey period, with an average increase of 3.6%, down 1.4% on the second quarter. A shortage of skilled manual workers was evident for 26% of the 14% of recruiters experiencing difficulties. Thirty one percent of total respondents attempted to recruit during the third quarter.

NHBC applications for housing starts showed a modest increase of 100 to stand at 2,700 in the third quarter 1992, an increase of almost 4%. Starts also increased in Great Britain as a whole by a healthier 9.5% to 3,000. These are encouraging figures as they point to an improvement in house building (towards the middle of next year). This increase is most likely a result of recent interest rate reductions.

FIGURE 1 FISH LANDINGS IN SCOTLAND: JANUARY TO JUNE 1992 - COMPARED WITH JANUARY TO JUNE 1991

Landings by UK vessels	JAN TO MAR 1992			92 PER CENT OF 91		
	Weight Tonnes	Value £000s	Price £/T	Weight %	Value %	Price %
Demersal	133,097	129,157	970	102	93	91
Pelagic	154,582	17,477	113	101	101	100
Shellfish	34,409	43,183	1,255	101	93	91
Cod	26,185	33,893	1,294	100	98	98
Haddock	38,478	32,394	842	128	86	67
Whiting	24,281	12,966	534	106	92	87
Saithe	7,575	3,689	487	81	69	85
Dover Sole	35	116	3,314	113	120	106
Hake	1,533	2,487	1,622	95	87	92
Lemon Sole	2,045	3,836	1,876	76	83	110
Ling	2,761	2,424	878	111	113	102
Megrim	1,897	3,203	1,688	92	108	117
Monks	6,787	17,126	2,523	100	108	108
Plaice	5,864	5,671	967	97	83	86
Skate	2,218	1,525	688	88	93	105
Sandeels	4,152	185	45	50	47	94
Dogfish Spur	4,288	4,025	939	99	95	96
Witches	1,316	1,646	1,251	82	84	102
Mackerel	75,894	9,605	127	107	109	103
Herring	71,863	7,450	104	93	90	97
Brown Crabs	3,471	3,076	886	100	91	91
Green Crabs	296	145	490	123	128	104
Velvet Crabs	1,288	2,370	1,840	115	108	94
Lobsters	295	2,509	8,505	79	79	99
Prink Shrimps	112	95	848	207	186	90
Squid	440	613	1,393	72	98	136
Scallops	3,880	6,255	1,612	124	115	92
Norway Lobsters	13,907	24,436	1,757	97	86	89
Queen Scallops	3,619	1,294	358	98	94	97
Periwinkles	1,420	806	568	93	96	103
Total by UK vessels	322,088	189,816	589	102	94	92
Landings by foreign vessels	35,152	10,797	307	297	267	90
Total landings in Scotland	357,240	200,613	562	109	97	89

Source: Scottish Office Information Directorate, 12.02.1992

Amongst individual species, haddock showed the largest absolute reduction in value of sales. Even though the volume of landings increased by 28%, price fell by 33% so that the sales value fell by 14%, from £37,496,000 to £32,394,000. Reductions of over £1,000,000 were also registered by three other demersal species, whiting, saithe and plaice, each experiencing marked reductions in price.

Housing completions also increased in the third quarter, with Scotland up 16.1% to 3,600 and Great Britain as a

whole up 13.1% to 37,900.

During the third quarter of 1992 the NHBC First Time Buyers Ability To Buy Index increased by 3 points to 103. Once again due to interest rate reductions. For the last twelve months the index has been at its highest levels since the first quarter of 1983 and for the first time the index has remained at a value of 100 or more for four consecutive quarters. The higher the index the greater the ability to buy. This index tends to be a lead indicator of housing starts with a time lag of two

quarters.

In the meantime the Bank of Scotland have initiated a scheme whereby they take over repossessed houses and lease them back to their former occupants. House auctions have come to Scotland, in another B of S venture (with General Accident Property Services) auctioning houses from an Edinburgh hotel. Although 10 of the 24 houses offered were withdrawn for failing to reach their reserve price, there were plenty of bargains. Prices ranged from £2,750 for a two bedroom ground floor flat in run down Niddrie, to the most expensive, a semi detached villa in the south of Edinburgh for £50,000 (its reserve price), and also included a three bedroom maisonette in Irvine for £10,250 (£6,250 above its reserve).

Like the crew of a sinking ship, our recession racked construction companies are jettisoning anything they do not need to keep themselves afloat. Jobs, plants and even entire businesses are going overboard in a desperate battle for survival as executives struggle to raise cash to lighten debt laden balance sheets. Overheads representing thousands of jobs have been cut, excess capacity shut down and unwanted buildings and non-core businesses sold, often at a loss. As a result businesses may look very different when, eventually they reach calmer waters.

However there is some better news, business parks are still holding their own; Wimpy Construction Scotland have just been appointed management contractor to build the £32.5 million Gyle shopping centre at the South Gyle Broadway on the outskirts of Edinburgh.

Barr Construction a division of Ayr based Barr Ltd has won a £10 million design and build contract for five water treatment plants in Argyll for Strathclyde Water following on from their completion of three sites in Ayrshire.

Lothian Regional Council has secured a £21 million European loan to undertake major road, water and sewerage projects.

The loan is from the European Investment Bank and is at a lower rate than usual. It has been fixed at 8.885%, rather than the Public Works Loan Board rate of 9.87%, bringing an interest saving of £2.1 million over 16 years.

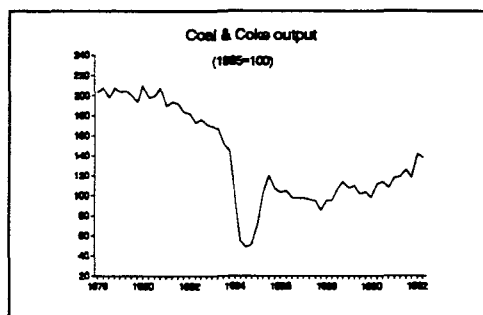
Housing, enterprise, the health service, roads and prisons are among the areas which will benefit from the recently announced £70 million package of construction projects for Scotland announced by Scottish Secretary Iain Lang, following the Chancellor's Autumn Statement.

The prognosis for the immediate future of Scottish construction is not good, however the more optimistic amongst us may find some signs of light at the end of the tunnel; lets hope it is not an oncoming train.

ENERGY

COAL, ELECTRICITY AND WATER

As the Government prepares to sell British Coal, it is becoming apparent that this may be one of the most problematic sell-offs of the Government's privatisation programme. This is partly because British Coal is virtually impossible to value accurately and partly because the approximate valuations look very low. Analysts have suggested figures of less than £1bn.



British Coal has fixed assets - including 50 coal mines and plant and machinery valued at £1.68bn - but it has £2.6bn of liabilities. It made a profit of £170m in the year to March 1992, but that figure says nothing about future profitability.

At the moment the Corporation earns almost all its money by selling 65m tonnes of coal a year to the electricity generators at special high prices which are enshrined in the contracts put into place by the Government before the electricity industry was privatised 2 years ago. These expire in March next year, and the new contracts, which are currently being negotiated, are expected to be much tougher on British Coal. The price it receives may fall from £1.85 a gigajoule (the unit of energy from coal) to about £1.50 a gigajoule. Had British Coal been forced to sell at that price last year, according to estimates from McCloskey Coal Information it would have lost £456m. The volume of coal in the new contracts is expected to be £45m in the first year, declining to £30m in the third year and probably less thereafter.

Mr Michael Heseltine, President of the Board of Trade, in a statement to the Commons announced the closure of 31 pits. 10 pits were earmarked for immediate closure with the remainder to be closed within the next year. A £16.5m aid package for coal mining areas was also announced. However, tumultuous events, including mass demonstrations, rallies and lobbying of Parliament forced the Government to launch a review of UK energy policy only days after Mr Heseltine announced his closure programme.

The Scottish energy industry is to come under the spotlight of the Government's review of pit closures, even although no pits within Scotland were among the 31 earmarked for closure. The Department of Trade have indicated that the inclusion of Scotland should not lead to speculation that Scottish pits might close. The review will, however, examine the structure of the industry from generators - both nuclear and conventional - to suppliers and customers. Mr Heseltine is due to publish, early next year, a white paper setting out the results of the review.

Albert Wheeler, British Coal's deputy chairman announced that Longannet's future was safe. He made it clear that Longannet which employs 1350 miners would definitely survive because it was on British Coal's list of "long-life" pits. He indicated that the pit had a contract with Scottish Power for approximately 2.5m tonnes of coal a year until 1995 and it had a good future well beyond that.

These events have made it clear that trying to create a free market in energy is much less simple than the Government thought when it embarked on the exercise in the late 1980's. These recent events and the debate which they have stimulated have shown that energy cannot be treated as an area where the Government has no role. It may be too strategic and too close to the national interest. As Mr Heseltine sets about reviewing his closure programme, he will have to decide that if reversing some of the pit closures means keeping open uneconomic mines, how are the extra costs to be paid for? They could conceivably fall on the tax payer or on the consumer of electricity, or if the answer lies in intervention from the Government, how is that to be squared with the Government's commitment to a free market?

Among those pressing for a more active Government role are two leading academic energy specialists - Nigel Lucas and Ian Fells who call in a report, for the creation of an Energy Commission to assign responsibility for planning electricity capacity and choosing fuels. They argue for an energy policy driven by wider considerations eg. greater use of coal by power stations where environmental effects can be localised and saving gas for others.

On the other hand, recent events have rekindled memories of the damage done by earlier interventions - the very events which gave Britain an inefficient power industry and provided the impetus to the privatisation drive. Indeed, Mr Heseltine's efforts to save miners' jobs may well introduce fresh distortions into the energy market. The old employment-led energy policy may well be reasserting itself.

Many of the problems which are currently facing the coal industry have been blamed on the "dash for gas" by power generators. The surge in power industry construction may lead to the point where the UK could have 30% more capacity than it needs. Also the run down of British Coal is taking place against a background of a huge effort elsewhere in the world to develop efficient

"clean coal" power stations which could compete with natural gas on economic and environmental criteria.

The problem in the UK is that the only coal fired power stations capable of competing financially with natural gas plants at today's prices are old ones whose capital costs have been written off. But the position may be quite different a decade or two from now when gas supplies are running out. According to recent Government estimates, gas reserves which may be found in UK waters could sustain present production levels for between 18 and 65 years. But only reserves lasting about 10 years fall into the "proven" category which guarantees they will be produced with any certainty.

Walter Patterson, an energy analyst specialising in coal technology says that the world's engineering companies and their clients are spending large sums of money in a hectic race to expand the range of advanced coal technologies and improve their efficiency while enhancing their environmental performance. Some 38 clean coal plants are operating in the US where Government and industry are jointly funding a £2.9bn clean coal programme over 5 years. But in the UK where much of the original research into clean coal technology was carried out, the level of activity is now very low compared with other countries. However British Coal has formed a consortium with PowerGen, the electricity generator and GEC Alsthm, the Anglo-French generating equipment manufacturer to develop new technology in this area. Clean coal technology may not save British Coal from contracting further during the 1990's but it could lay the ground for a renaissance some time next century.

There are however, some rays of hope. Monktonhall colliery, near Edinburgh, is the scene of a unique venture in British coalmining. By the end of this month, a small group of miners who have formed their own company, will begin regular production of coal from a pit which they have leased from British Coal. Not only is this the first time British Coal has allowed a deep mine to be worked by another operator, but each of the 110 miners who are working at Monktonhall has raised £10,000 to finance the venture and to guarantee their jobs. Monktonhall colliery should produce 250,000 tonnes of coal a year as the number of miners rises to 155. The mine produced about 1m tonnes of coal a year under British Coal, employing 1000 people at its peak. The cost of production should be £1.30 a gigajoule, compared with £1.80 a gigajoule which British Coal is thought to charge Scottish Power. But Monktonhall's costs are above those of open-cast coal. This weakness was highlighted when Scottish Power, which had sought tenders for coal supplies, rejected Monktonhall's offer on the grounds that its prices were uncompetitive. Instead it accepted tenders from open-cast suppliers in the UK and overseas. British Coal is also to increase its supplies of coal to Scottish Power. It is to supply an extra 250,000 tonnes in addition to the 2.5m tonnes it supplies annually under contracts running to 1995.

In July Mr Ian Laing, the Secretary of State for Scotland, said that the Government was looking at alternative ways of organising water and sewerage services in Scotland, including ways in which the private sector might contribute enterprise and investment. An expenditure of £50,000 was involved in engaging consultants, the Edinburgh-based merchant bank, Quayle Munro, to advise Mr Laing on future options. The justification given by Mr Laing for restructuring water and sewerage services in Scotland rested on the fact that local government is to be reorganised with the introduction by 1996 of a single-tier system to replace 9 regional councils, 53 district councils and 3 single-tier island councils. It has been suggested that between 15 and 51 new authorities would be set up. Also very heavy expenditure will be needed over the next 10 to 15 years to comply with EC directives on drinking water, sewerage and beaches. Meeting those requirement will cost £2.5bn in Scotland and maintenance, upgrading and improving unsatisfactory sewerage discharges could cost a further £2.5bn. Local authorities are already investing £703m over the 3 years to 1994-95. According to Mr Laing, given the spending required, it is only sensible to see how the private sector could provide capital and thus avoid swelling the PSBR.

Mr Laing announced recently that he would not be publishing the report he has received from Quayle Munro who were commissioned by the Scottish Office to examine options for restructuring water and sewerage. He argued that the report could not be released on the grounds of commercial confidentiality. However, a Scottish Office consultation document was published. Eight options for the way the water and sewerage industry could be changed were laid out by the Government in this document. The decision to bring Scotland into line with England and Wales by privatising water was not ruled out. The final decision on which option should be pursued will not be made until next spring.

One option, which would involve breaking new ground is to franchise water, with local authorities retaining ownership of water and infrastructure, but with private firms responsible for the day-to-day management of services. It was indicated that the estimated cost of provided water and sewerage services in Scotland would continue to rise and that regardless of which option was eventually decided on, the consumer would end up paying more. The 1992-93 average water bill in Scotland was £102, up 40% on 1989-90.

Earlier this year Scottish Nuclear, the state-owned operator of 2 nuclear power stations in Scotland, confirmed plans to explore long-term storage of spent fuel as an alternative to reprocessing, saving the company £43m a year. A public enquiry begins shortly into Scottish Nuclear's application to build a dry store to hold spent fuel for half a century.

Scottish Power is to axe 95 jobs following a decision to

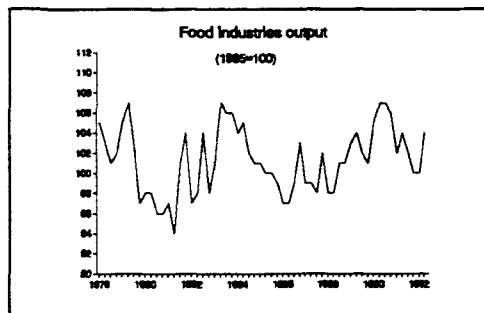
halve its engineering resource division and contracts group. The move follows a review launched earlier this year following delays in 3 important generating projects in the South of England - Metro Power for London Underground, a combined gas turbine power station at Shoreham and an incineration plant in Hampshire.

Junior Energy Minister Tim Eggar confirmed that the UK is to withdraw from the European Fast Reactor (E.F.R.) project at the end of March next year. The decision will cost Dounreay an estimated 80 jobs over the next 2 years with half due to be shed at the end of March. It has come on top of the ongoing major rundown which has seen 600 jobs go at the site over the past 4 years. The pull-out will save the Government its £13m annual contribution to the E.R.F. project which is the centre-piece of the collaboration agreement the UK has with France and Germany. It does not however, accelerate the March 1994 closure date for Dounreay's prototype fast reactor.

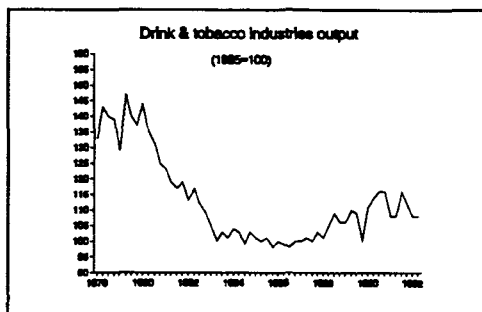
MANUFACTURING

FOOD, DRINK AND TOBACCO

Food industry output in Scotland showed a healthy 4% increase in the second quarter of 1992, reversing recent smaller reductions for the year to the second quarter. However, output is down by 3%, the output of drink and tobacco remained unchanged at 108 (1985=100).

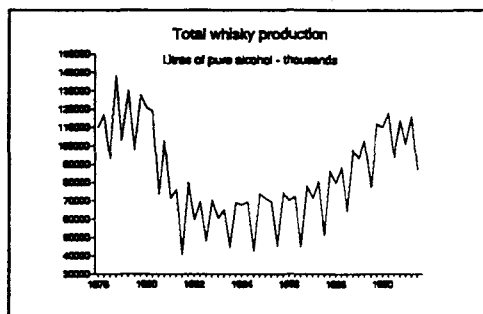


Results from the Scottish Chambers' Business Survey (SCBS) for October similarly indicate little change in the level of overall activity in recent months. For example, while 27.7% of respondents reported that orders had increased in the three months before the survey, 26.2% reported a decrease. One slightly encouraging sign is that more (33.3%) expect sales to increase in the next three months than the 24.2% who expect a decrease. However, 73% of respondents felt that the factor which is more likely to limit output in the short term is a lack of orders. Total employment remained static in the period before the survey although, reflecting the slight note of optimism regarding sales noted above, there appears to be some prospect of a small increase in employment in the coming period.



WHISKY

Exports of Scotch whisky continued to show a slight improvement in volume terms during the third quarter. In the nine months to September, total exports were 161.4 million litres of pure alcohol (LPA), an increase of 4.1% over the corresponding period in 1991. Bottled-in-Scotland blended exports rose by 3.7% to 117.6 million LPA.

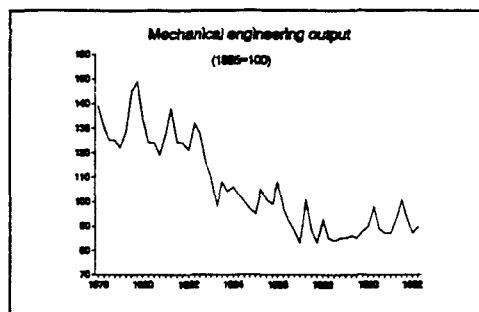


However, the increase may not be sustainable. Indeed, almost all of the increase is accounted for by an exceptional performance in June; over the three months to September total exports actually declined relative to the equivalent quarter in 1991. Meanwhile, home sales continue to decline sharply. In the twelve months to August home sales stood at 18.2 million LPA, a decline of over 7% on the corresponding period in 1991.

Despite the recession, two whisky companies recently posted good full-year results. Both, coincidentally, are members of the dwindling band of Scottish-controlled quoted whisky distillers. Highland Distilleries increased pre-tax profits in the year to August by 2% to £28.74 million, mainly by increasing export sales of The Famous Grouse by 12% in volume terms (16% by value). The company experienced a decline in home sales volume of 6%, still better than the industry as a whole. Burn Stewart, which has had a full stock exchange listing for just a year, increased annual profits to June by 26%. The rise to £10.34 million was in line with forecasts made at the time of flotation. Burn Stewart's business is very different from that of Highland; it has no major brands in

its portfolio, and much of its business comes from supplying own-label brands to the large supermarkets. It is also one of the few whisky companies which has sought to establish a trading network in eastern Europe. The uninspiringly-named Plodimex, a Russian joint venture, is seen as a long-term venture designed to trade in wines and spirits in much of the old eastern bloc.

MECHANICAL ENGINEERING



After substantial falls in output for two consecutive quarters, the industry managed to make a modest recovery in the second quarter this year. The seasonally adjusted output index gained 3.4% over the first quarter, as indicated by the latest Index of Production and Construction from the Scottish Office. Despite this recovery in output performance, the results of the latest Scottish Chambers Business Survey conducted in October show a rather gloomy picture for the industry for the second two quarters this year. So far as the general business situation is concerned, a balance of 26.4% of firms were less optimistic, in sharp contrast to 17% more optimistic in the second quarter. Compared with the same period a year ago, a balance of 32.9% of firms were less optimistic about the general business situation.

In the last issue of the Commentary, we pointed out that business confidence expressed by the corresponding firms in the previous survey was not backed up by the volume of new orders or sales. The actual events confirmed our point. In the previous survey, a net 7.2% of firms expected new orders to rise in the third quarter. It actually turned out that a net 26.7% of firms reported a fall in the total volume of new orders. New orders from Scottish and UK markets continued to be depressing. Moreover, despite the substantial devaluation of the sterling, new orders from overseas began to turn from a healthy upward trend into decline for a net 21.1% of firms, and are expected to be down for a net 7.4% of firms in the final quarter this year. Actual and expected sales in the second two quarters also show a similarly gloomy picture, with nets of 27.5% and 26.2% of firms reporting or expecting a decrease in the volume of sales.

Capacity utilisation fell further to 73.2% and was lower than the same time last year in a net 18.7% of firms in the survey. The trend of running down on stocks of

finished goods and raw materials continued and is expected to continue. In the third quarter, many firms revised their investment plan. Investment in plant and equipment declined in the survey period in a net 14.9% of firms, compared with 1.1% of firms expecting to reduce investment in the previous survey. In the current quarter this decline will continue. For those who have invested the main incentives were increased efficiency (39.2%), replacement (31.4%) and capacity expansion (13.7%).

Total employment fell in a net 11.4% of firms, and is expected to fall again in the current quarter in a net 15.6% of firms. The worst hit were and will continue to be, temporary and sub-contracting workers and the self-employed. More firms cut back on short time working.

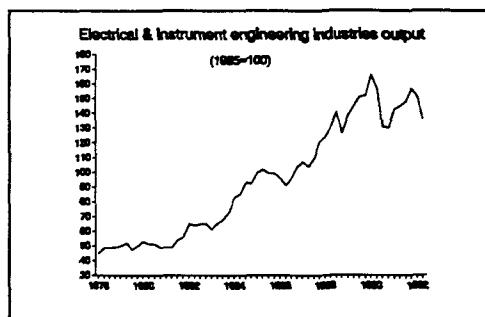
The restraint on increases in wages and salaries was prevalent. On balance a net 12.2% of firms did not increase wages and salaries. In the 20.2% of firms which granted increases, wages and salaries rose by 6.1%. Employment prospects in the mechanical engineering industry was still bleak, as a net 17.7% of firms did not attempt to recruit new staff. For those firms which attempted to recruit new staff, a net 8.1% of firms experienced difficulty in recruiting skilled manual workers.

Although the latest business survey was conducted before the reductions in interest rates and the Autumn Statement, it is difficult to see any immediate effect of interest rates reductions and the government's "dash for growth" policy. Moreover, the continued possibility of pit closures will certainly cause anxiety among Scottish mining equipment making firms. Moreover, since a majority of corresponding firms (82.6%) ranked orders or sales as the number one factor in limiting output, and the expected new orders and sales for the final quarter is depressing, the immediate prospect for output and especially employment in the mechanical engineering industry looks rather bleak.

ELECTRONICS

Further concern regarding the recent poor performance of the sector, recognised throughout the 1980s as Scotland's star performer, will be generated by the figure for the Index of Production for the first quarter of 1992 which shows a fall in the value of output of 10%. This contrasts with the UK performance over the same time period when output grew by 1%. The fall in the electronics index will undoubtedly have accounted for some part of the index for all manufacturing in Scotland having fallen by 3.1% in the second quarter. It should be noted, however, that the index has been behaving erratically over recent quarters and could well bounce back somewhat in the third quarter. More worrying is that electronics output, which remained broadly static between 1988-91, shows no sign as yet of resuming the strong growth path which was such a feature of the period up to 1988 which made it an increasingly

important part of Scotland's industrial base.



Reflecting these recent difficulties, one third of respondents to the October Scottish Chambers' Business Survey (SCBS) reported a downward trend in employment in the preceding three months. 78.7% reported a lack of new orders as the factor most likely to restrain sales in the current period (compared to, for example, only 3.4% who cited a shortage of skilled labour). On average, the industry is currently running at 75% capacity. One slightly encouraging sign is that the percentage of respondents (38.1%) who expect sales to fall in the next three months is less than the percentage (42.8%) who have actually experienced a fall in the last three months. However, in view of the above. This appears to be something of a triumph of hope over expectation.

Reflecting the overall lack of activity, developments in the company sector have been few and far between. However, one recent piece of good news has emerged, the decision of the Chicago-based circuit company Jabil, to open its first European facility in Livingston. One major factor in the decision to set up in Scotland, which was in competition with Ireland and the Netherlands, was the presence here of the major computer manufacturers. Initially, only 40 jobs will be involved but it is hoped that the figure will eventually reach 460 if market growth permits.

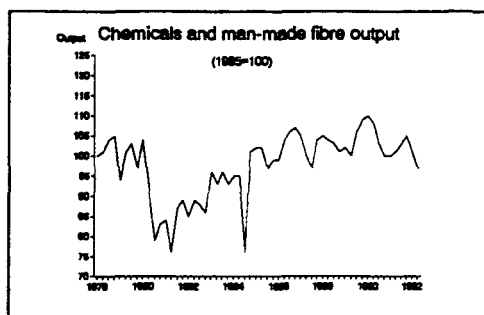
Elsewhere, the US company Bourns Electronics, announced that it is to begin making sensor components at its Dunfermline factory. The £500,000 investment, which will replace imports from its sister plant in the US, is expected to create 20 jobs.

CHEMICALS AND MAN-MADE FIBRES

The chemicals and man-made fibres industry (SIC80 classes 25-26) in Scotland is a medium sized industry just as it is in the United Kingdom as a whole. However when we compare recent relative performance their similarity begins to fade. In the second quarter of 1992, according to the latest index of Production and Construction released by the Scottish Office, production fell by 4.0% compared with a decline of 1.0% in the U.K. This relative weakness is enhanced by a comparison

of the latest and preceding four quarters. Over the year the Scottish chemicals and man-made fibres industry amassed an annualized growth rate of 1.0% relative to the U.K.'s 5.0%.

The latest Scottish Chambers Business Survey indicates a net balance of 19.4% of respondents showing a decline in optimism over the period from June to September 1992. Between 1991:Q3 and 1992:Q3 business optimism declined in a net 18.4% of cases.



The health of demand in the industry can be seen by looking at trends in orders & sales and the level of stocks held in anticipation of future demand. New orders with Scotland and the rest of the U.K. declined in the third quarter with only a slight easing in the downward trend expected in the fourth quarter. Conversely, export orders and sales were strong in the third quarter while a net 4.8% expect orders to worsen and sales to improve in 1992:Q4. Stocks and work in progress declined in the third quarter while in the fourth only work in progress is set to improve slightly.

Output performance is still poorly. Over 80% of respondents still cite poor orders and sales performance as their main production constraint. This has resulted in falling capacity utilisation, for a net 17.8% businesses, and currently stands at 76.3%.

Investment intentions are also looking fairly anaemic. Plant and equipment investment declined again and is projected to decline further in the final three months of this year. Land and buildings investment is expected to show a relative improvement after a net 10.4% reported a decline in the three months to September. Extending capacity and improving efficiency are the current reasons for new investment in a net 27.8% of firms.

Wages and salaries rose by an average of 4.7% in the 38.7% of firms who granted wage and salary increases. This represents a 50% fall in only three months. Total employment fell in a net 12.9% of firms and 9.7% expect more lay-offs in the present quarter. This is disappointing given that an increase in labour utilisation was expected in the previous survey. Overtime fell in the third and decision makers are expected to impose further curbs in

the run up to Christmas. On the training side, a net 22.6% of firms expect to increase their training provision in the current quarter. A net 18.2% reported a more restricted choice of applicants although, as yet, they do not consider this a problem.

Consequently, a general overview would suggest that we can expect further bad news from the 1992:Q3 Index of Production and Construction, which is due in February 1993. We therefore cannot expect to see any real signs of recovery in 1992.

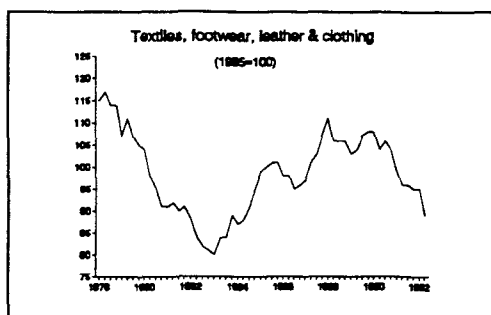
The planned ICI de-merger was confirmed in November. The organisational split of the company's agrochemicals, pharmaceuticals and specialities divisions into a subsidiary will be complete by January 1, 1993. A final board decision will be taken in February of next year.

TEXTILES, CLOTHING, LEATHER AND FOOTWEAR

Some tentative hopes expressed in the last issue of this Commentary that this sector might be about to emerge from its recent flat performance on the back of rising export sales have been badly dented by the performance of the Index of Industrial Production for the second quarter of 1992, which showed a fall in output of 6% compared with the previous quarter. Largely due to this second quarter figure, output for the year to the second quarter is down by 7%. The sector's showing in Scotland largely reflect that of the UK as a whole, where output for the year until the second quarter shows a reduction of 5%. As in other sectors, the recession appears only to have hit the Scottish sector somewhat later.

The Scottish Chambers' Business Survey (SCBS) responses also make fairly depressing reading. Just under one third of respondents experienced a downward trend in sales in the three months to October compared to 27.1% who experienced an increase. More worrying is that a greater percentage (31.8%) expect a fall in orders over the next quarter compared to only 16.5% who expect sales to increase. It is the case, however, that export sales have held up better than the domestic market and are expected to so in the near future. However, almost 80% of respondents continue to cite lack of orders as the factor most likely to restrict output in the coming quarter. Over one quarter (26.7%) report a decrease in employment in the period before the survey and 31% expect employment to decrease further in the next few months.

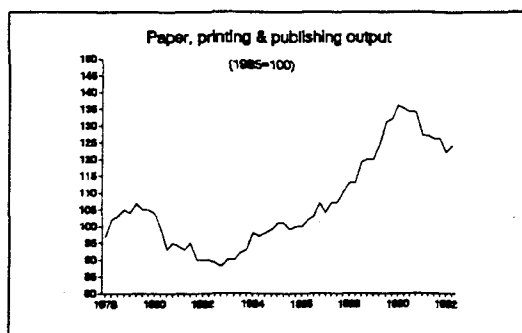
Among Scottish companies, shares in Grampian holdings, whose Textile interests include sporting goods and clothing shops, reported a fall in profits from £5.06m to £2.96m for the half-year to June amidst what the Chairman termed "very demanding" trading conditions. Sporting suffered most, with profits dropping from £1.11m to £0.16m.



Elsewhere, the Harris Tweed manufacturer Kenneth MacKenzie has been sold for £1.75m to Kenneth MacLeod the industry's other main manufacturer. The former owner Seet decided to sell following a long period of falling sales particularly in North America

PAPER, PRINTING AND PUBLISHING

The latest Index of Production and Construction, which refers to the second quarter of 1992, indicated a 2% increase in production in the Paper, Printing and Publishing Sector since the first quarter of 1992. Since the second quarter of 1991, output has declined by 4%.



The third quarter of 1992 Scottish Chambers' Business Survey indicated a sharp decline in optimism in the Scottish paper, printing and publishing sector with a net of 19% reporting a reduction in confidence. The trends in total orders and total sales declined for a net of 23% and 17% of respondents respectively and both are expected to continue to decline. Investment intentions were revised downwards in the third quarter and are expected to continue to be revised downwards. The trend in total employment continued to decline and further declines are expected in the three months to December.

SERVICES

FINANCIAL SECTOR

Job cuts such as those recently announced by the Royal Bank (3500 jobs to go in branch banking and the 530 lost by the Clydesdale in the last year), a reduction in the

number of branches, and falling profits are all symptomatic of the current plight of Britain's and Scotland's retail banks. Fuelled by poor lending decisions and consequent bad debts, the banks have an urgent need to cut costs if they are to restore profitability. The bad debts although severe do not appear to threaten the existence of the companies at present but they must inevitably raise questions about how banking is organised in the UK. The move over the last ten years, at least, has been towards increased competition in the financial sector and particularly in the market for banking services. Notable changes include the Building Society Act which greatly increased the competition from the building societies, the conversion of the Abbey National from mutual to proprietary company, the sell-off of the Girobank to Alliance and Leicester, and the change in the status of the TSB and its public issue of shares. All these factors have added to the competitive pressure on the banks. At the same time, innovations such as telephone banking and the rapid development of electronic fund transfer, and the influx of foreign banks into London have increased the competitive forces in particular sectors of the banking market and removed or reduced the profitability of some traditional areas of banking activity. Not all, of course, has been bleak for the banks. Cross-selling of financial products has opened up new markets and the substitution of credit card and personal loan borrowing for more traditional means such as overdrafts has increased the rates of interest earned and expanded the market. Overall, however, the market for banking services is now much more competitive than even ten years ago.

How desirable is this increase in competition in the banking sector? What most personal depositors want from their banks is absolute security for their savings. By its very nature competition in banking encourages banks to increase profits often by taking on more loans. When credit is easy competition between lenders reduces interest rate margins and leads banks to take on business that at other times they would reject. The result is that a bank's loans may not be as secure as its depositors would like. The estimated \$4bn of loans to Olympia and York is a classic example of the problem. The bank loans to Olympia and York were secured against property the value of which has fallen dramatically leaving the banks nursing potentially huge losses. The losses are clearly to the detriment of their shareholders and may, in extreme cases, be to the detriment of their depositors. At the very least such business undermines the profitability and capital base of the bank even if it doesn't threaten its existence.

The onus for control of this situation is, of course, placed on the regulatory authorities. Capital adequacy ratios and monetary policy are amongst the various weapons used to regulate bank actions. However, it may reasonably be argued that this regulatory control is not enough since, as we have seen with BCCI, the knowledge and ability of the regulatory authorities may not be adequate to prevent collapse. It is perhaps more appropriate to examine the

role of the competitive model in banking and the financial sector more generally. Scotland has a long tradition of alternative forms of organisation in the financial sector. The TSB was founded in Scotland with the depositors, in effect, as owners, whilst the overwhelming majority of Scottish life insurance societies are mutuals run for the benefit of their policyholders. The time has perhaps come again for a reappraisal of the mutual form of organisation.

The advantage of the joint stock company is its need for profit to satisfy shareholders. If a joint stock company is to thrive and grow it must make profits in order to secure further capital. The need for profit to satisfy shareholders provides a powerful mechanism for forcing companies to act efficiently. Reinforcement to this mechanism is also provided by the discipline of the takeover mechanism. If the company fails to secure adequate profits it may be acquired and the management changed. There is an incentive for managers to be efficient. No such mechanism exists with the mutual. The chances of the policyholders or the depositors rising up as one man or woman and throwing out the managers are so remote as to be irrelevant. And yet, can we really believe that the pressures for efficiency are so much greater in the joint stock company? The pressures of the market exist for both since losses are just as inimical to the future survival of both forms of organisation. The benefit the mutual has is that it does not have to worry so much about its short run profitability. It can afford to be conservative and to turn away some low margin business.

It is important not to exaggerate the possible benefits of the mutual form of organisation. A casual survey of the life assurance sector in Scotland suggests that the bleaker conditions in financial markets also affects them. Some staff reductions have taken place whilst questions have been raised about the security of some life companies, both mutual and proprietary. Scottish Provident, for example, felt the need to reassure its staff of its financial strength. The high proportion of assets invested by the life companies in equities in recent years causes problems when the prices of these assets decline, a problem recognised by the Government Actuary's decision to reduce reserve requirements. At the same time the mutual sector in Scotland could hardly be said to be immune from restructuring with the takeover of FS Assurance by Britannia, and Scottish Mutual by Abbey National. The causes of these changes are many and varied. Some would argue that they are a consequence of the mutual structure which has allowed conservative management to persist and pay inadequate attention to sales distribution mechanisms, or caused difficulties in enabling the firms to expand because of their inability to raise funds from outside shareholders. The more charitable would argue that changes in the UK regulatory structure makes it almost impossible for the smaller life offices to expand. Whatever the true reasons it is clear that the mutual form is not a panacea for all ills. Similar observations may be made regarding the UK building society sector. Although Scottish involvement in this

sector is small there are still valuable lessons that may be learned. The building societies have not been immune to the problems of the banks; redundancies and financial problems may be observed particularly among the smaller societies. However, that the overwhelming majority of these relatively undiversified institutions have come largely unscathed through one of the most severe falls in property prices this century is almost certainly a testimony to conservatism and the usefulness and strength of the mutual form of organisation.

Given these examples it is not too difficult to believe that the mutual form of organisation has something to offer. The very essence of banking (and life assurance) is a requirement for conservative behaviour. Depositors want to be sure that their deposits are safe. In the absence of Government guarantees (and the Savings and Loans problems in the US have revealed just how expensive this can be for the tax payer) the only sure way for depositors to be guaranteed that their money will be returned is for banks to lend cautiously. Profit seeking behaviour and the desire for growth can lead joint stock banks to take on excessive amounts of low margin, risky business. Mutual banks would not be totally immune to these pressures. Margins on their business would also shrink in periods of intense competition, but they could afford to be more cautious since they would not have to make profits to satisfy shareholders. Depositors in mutuals would not, of course, receive the protection of shareholders funds in the event of default, but since these often amount to no more than one twentieth of a banks capital base, the protection such funds offer is not large. Scotland has a history of innovation in the financial sector. The adoption or strengthening of mutual status would be a significant innovation in the context of recent events. Should we perhaps be looking forward to the conversion of a building society into a mutual bank? At the very least no further conversion of a mutual financial institution should be considered without careful consideration of the trade off between security and profits.

DISTRIBUTIVE TRADES

Evidence from the Scottish Chambers Business Survey suggests a general downturn in the distribution sector. Wholesale respondents reported a severe decline in optimism in the three months to September. A balance of 44% of firms reported a decline in optimism this balance was the lowest since the survey began in 1984. Two thirds of responding firms were less optimistic than they had been in the third quarter of 1991. Retail optimism fell to its lowest level since the third quarter of 1989 and to the second lowest level since the survey began in 1984. A balance of 26% of retailers were less optimistic than in the third quarter of 1991. Confidence was low in all chamber of commerce areas.

A net of 24% of wholesale distribution firms reported a decline in the total volume of sales - this is also the lowest balance since the new survey began. The trend in

the total volume of retail sales declined to the lowest level since 1987 and to the second lowest level since the survey began in 1984.

A balance of 11% of wholesale firms anticipate that the total volume of sales will decline in the three months to December. The factor most likely to limit wholesale sales in the fourth quarter is the level of interest rates. A net of 8% of retailers expect total sales to continue to decline in the fourth quarter indicating that retailers do not expect seasonal factors to increase sales significantly. 44% of retailers cite credit facilities as the main limit to output in the fourth quarter.

TABLE 1 WHOLESALE OPTIMISM

Chamber area	Net % more optimistic	
	Q3 1992	Q2 1992
Aberdeen	-37	+17
Central	-20	+20
Dundee	-53	+35
Edinburgh	-50	+24
Fife	-62	n/a
Glasgow	-45	-15

TABLE 2 RETAIL OPTIMISM

Chamber area	Net % more optimistic	
	Q3 1992	Q2 1992
Aberdeen	-19	+16
Central	-36	0
Dundee	-34	+ 9
Edinburgh	-12	+19
Fife	-32	-16
Glasgow	-20	+ 7

The trend in total wholesale employment remained low in the third quarter and the rate of decline is expected to accelerate in the fourth quarter. The trend in total employment in the retail sector continued to decline and the decline is expected to accelerate in the three months to December. The most buoyant trends of retail employment are expected to be with respect to part-time and temporary workers, but even these trends are expected to remain negative.

29% of wholesale respondents increased wages during the Survey period and the average increase was 5%, 0.7% lower than the average increase in the second quarter and 2.4% lower than in the corresponding period one year ago. The average wage increase among retail respondents was 5.4%, 2.7% lower than in the third quarter of 1991.

35% of wholesale firms attempted to recruit and only 5% of firms reported increased recruitment difficulties, although 21% of respondents experienced problems in recruiting suitable employees in particular occupations.

40% of retailers attempted to recruit in the third quarter and 20% of these firms reported difficulties in attracting suitable part time staff. 28% of firms reported problems in recruiting suitable employees in particular occupations.

A retail survey from Barclaycard mirrored the SCBS results showing that consumers plan to spend less this Christmas than last. The Survey suggested that less people expect to take on additional borrowing for Christmas spending.

William Low, the Dundee based supermarket group announced profits at the top end of expectations with a forecast for this year of £23 million. Lows claimed to be 'concerned but not worried' about Sainsbury's announcement to target Scotland for expansion. On 4 November David Sainsbury, chairman of Sainsbury's identified Scotland as its single most important area for expansion. The supermarket group announced a 20% increase in pre-tax profits.

TRANSPORT

The privatisation of British Rail seems certain to be delayed till the end of 1993 as a paving debate has been postponed due to the row over the coal mine closures. Coal privatisation was to be discussed at the same time. In the mean time there is growing concern over the results of the privatisation. Interested companies are holding back until the full details of the track access regime, being prepared by government accountants. With franchises for services going to the highest bidder, (or lowest subsidy requirement), and the company taking all the risks thereafter, the temptation to cut services or raise fares to obtain returns will be high. The picking off of profitable lines, together with the policy of open access (more than one company can operate on a line) may have the same result as occurred on the buses, with skeleton or non-existent services in some areas and a plethora of trains on the profitable roots. A National Consumer Council report has also come out against the proposed privatisation. The chair, Lady Wilcox, who is also on the board of the advisory committee of the Citizens Charter, said questions on the responsibility for the service & train standards, as well as the effect on season tickets and the like after the splitting up of ownership of the network, had not been resolved.

BR has announced 5000 job losses throughout the UK, with more expected next year, which may include compulsory redundancies. The blame was put on falling revenue due to the recession; in Scotland the worse performer was Scottish Freight, which employs 1200 workers. It had already been announced that the oil train service on the West Highland line will close from April. ScotRail which employs 14,000 people performed well and no new service closures will take place here. BR employs 14,000 people in Scotland.

Charterail the private sector train service from Glasgow to London, designed to take road vehicles, has gone into

liquidation.

A new air service from Glasgow to Humberside has come into operation. It is run by Brymon European Airways, a merger between Brymon Airways, based in the West Country, and a pioneer of the London City Airport and Birmingham European Airways.

BAA pre tax profits have risen by 46% in the first half of the year. After allowing for exceptional changes the rise was a more modest 12% in passenger numbers, and rationalisation by the company, with a 20% reduction in the workforce.

There is no resolution as of yet over the merger of USAir and British Airways. The merger would open up the lucrative and heavily protected US internal flight market to BA. The deadline for US Government approval is 24 December 1992.

Whilst the August statement protected capital expenditure, yet another attempt was made to raise private sector interest in road building and road pricing. The idea of giving firms concessions in certain areas to build roads and charge for existing roads to raise the initial capital has been raised. The obvious question being asked is why should motorists pay road tax, if not to fund road building. The idea is that road pricing will help ration road space and thus reduce congestion. Just the fillip the newly privatised rail service will need.

HEALTH

The air is full with the talk of "options". For some years now Health Boards have been required to undertake option appraisal - essentially a form of cost-benefit analysis - in the assessment of major new capital spending programmes. This approach is clearly now being applied to all major changes considered by boards, including the closure of existing facilities.

In Glasgow, a variety of options have been proposed and have been 'trailed' in the press. The more headline-catching of the options involve the closure of two major hospitals, the Victoria and Stobhill, and a continuing shake-up of maternity services. In what seems a paradoxical move the Victoria is being considered for trust status. The reasoning appears to be that closure would not be implemented for some years so that the hospital should be allowed trust status in line with the health service reforms being pushed by the government.

In Edinburgh the favoured option appears to be to build a new Royal Infirmary, with a variety of alternatives suggested for rearrangement and closure of other facilities.

Observers of all this activity may care to ponder that competent option appraisal should take into account as fully as possible the social cost consequences of proposed developments, and in particular the costs incurred by the

patients themselves (and their families and friends in many instances). A good example is patient travelling costs, including the time costs involved. Whenever people are in a position to comment on such proposals they should take a good look at how these social costs are 'handled' and evaluated. If changes are to take place they should not focus solely on the more narrow calculations of 'efficiency savings' accruing to the Board(s) concerned. Any assertion that these savings will be used to benefit the patient and the community needs to be subjected to critical scrutiny.

It would be pointless to list here all the proposals for trust status recently put forward. Indeed within a year or two it will probably be easier to list those not opting for this status: this is, of course, a direct consequence of the election result. Another plank of the reforms is the encouragement of general practitioners to hold budgets for their practices. To date 10 have done so. The SHHD expects a further 80 budget holders in 1993. The 90 practices will cover some 25% of the practice population. The planned total for 1994 is 150 and for 1995 the figure is 200, covering some 40% of the population. The 'qualifying' practice list size will be 6,000 patients by April 1993, down from the 11,000 figure in the original White Paper. Another interesting development is that all 25 GP practices who will hold budgets in the Grampian region are to form a purchasing consortium. Similar developments can be expected elsewhere in Scotland.

The Autumn Statement was subjected to careful analysis by Stephen Day in the Health Service Journal of 19 November. He calculates that the NHS will receive 0.9% extra money for growth next year. This outcome is crucially dependent, however, on the 1.5% public pay award holding and on 'efficiency savings' of 2%, worth £390 million, being achieved. In a forceful editorial the Journal laments the sacrifices imposed on health service workers and questions the chances of obtaining the efficiency gains, point out that "managers are going to have to tackle some long-standing, deep-rooted problems which may bring them into confrontation with vested medical interests". At the same time the Journal commends to Mrs Bottomley the proposal from the NHS Trust Federation that trusts be allowed flexibility on pay awards provided the total bill does not exceed 1.5%.

The provisions for Scotland were announced on 2 December. Spending is to be £3.76 billion next year. The increase in real terms over this year's planned spending is deemed to be 0.6%, but this figure should be treated with caution, as the previous paragraph indicates.

No doubt future "talk" will be of purchaser/provider splits, contracts and the working (or otherwise) of the health markets that are currently being so assiduously created.

THE LABOUR MARKET

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. The most recent revisions of the employment data are presented in Table 1.

September 1991 is the most recent date for which employment data are available using both the old and the recently revised benchmarks. Total employment at this date is estimated to be 1,984 thousand rather than 1,958 an increase of 26,000 (1.0%). Estimates of male employees in employment increased noticeably by 15 thousand (1.5%) in September 1991 from 1011 to 1026 thousand. Estimates of total female employees have been revised upwards by 7 thousand (0.1%) to 954 thousand. However, estimates of part-time female employment actually fell by 4 thousand to 414 thousand in September 1991, a fall of 1.4%. There is also a decline in estimated "full time equivalent" employment of about 11 thousand ("part-time" assumed to be "third-time"), or 0.69%.

Nor is it simply the sex and part-time/full-time composition of employees in employment which is affected by the revisions: there are also changes at the sectoral level. The upward revisions in the employment estimates are heavily concentrated in the service industries. Indeed of the total increase of 23 thousand in estimated employment (at September 1991), 21 thousand is attributable to the service industries. Within the production and construction industries manufacturing employment has apparently been underestimated (by 2,000 in September 1991), whereas employment in the energy and water and the construction industry has been slightly overestimated (by 1,000 and 2,000 respectively at September 1991). Within manufacturing, it seems that recent estimates have overstated employment in metal related industries and chemicals and vehicles (by about 12,000) and underestimated employment in other manufacturing (by 14,000). Within services employment in banking etc has been significantly under recorded (by over 21,000 in September 1991, whereas that in Public administration, education and other services has been over-estimated (by about 9,000).

The most recent employment data are for June 1992, and those are also reported in Tables 1 and 2. Overall, total employees in employment fell marginally, by around 1,000 in the year to June 1992. Male employees in employment fell by 5,000 (0.5%), and total female employment increased by 4,000 (0.5%). Part-time female employment rose by 2,000 (0.5%), and full-time female employment actually rose by 2,000 (0.4%). The number of employees in employment in production and construction fell by 33,000 over the year to June 1992,

but numbers employed in services increased by some 33,000, a pattern consistent with the increase in female employment.

Over the year to June 1992 the biggest employment gains were registered by: public admin. etc. (14,000) and banking etc (18,000). Construction again registered the biggest employment losses (14,000), but employment also fell in each manufacturing industry (by a total of 17,000).

Vacancies: Stocks and Flows

Over the year to October 1992 unfilled vacancies at job centres in Scotland fluctuated between 16.8 (14.4) and 19.7 (20.9) thousands on a seasonally adjusted (unadjusted) basis (Table 3). Vacancies rose by 1.2 thousands from 17.0 to 17.2 thousands over the year to October 1992 on a seasonally adjusted basis. The net increase 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 October 1992 inflows of 21.2 thousand were only slightly greater than outflows. During 1991 there were a total of over 219,000 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.

Unemployment, on a seasonally adjusted basis, rose in each of the ten months up to and including August 1991, fell in September and remained constant in October of that year. In contrast unemployment continued to rise in the UK as a whole. However, unemployment then increased in 11 of the 12 months up to and including October of this year, the exception being March 1992 in which unemployment fell by 0.2 thousand.

Over the year to October 1992 total unemployment rose by about 18.8 thousand, from a low of 230.9 thousand or

0.7 full percentage points. This represents a major increase in the level of unemployment of 6.3 per cent. In fact the aggregate figures reflect an increase in female unemployment of 1.0 thousand, and an increase of 13.3 thousand in male unemployment.

Table 6 presents recent flows into and out of the unemployment stock. In October 1992 inflows were, at 38.7 thousand, about 4.1 thousand more than in the same month of 1991. Outflows were, at 39.8 thousand, 3.5 thousand more than in October 1991. If gross outflows were maintained at their October 1992 level unemployment stocks could turnover in just over 6 months.

BUSINESS SURVEY EVIDENCE

Results from the Scottish Chambers' Business Survey for the third quarter provide further evidence of the continued general slowing down in the rate of increase of wages and salaries. Between the third quarters of 1991 and 1992 average settlement levels have fallen between 1.7% and 3.2%. At the sectoral level the decline in the average level of settlements has been: 2.6% in manufacturing; 3.2% in construction; 2.4% in wholesale; 2.7% in Retail, and 1.7% in tourism and leisure.

However, notwithstanding these declines, the average settlement is still some 5%, as such it poses some questions as to the ability of the Government to successfully maintain a ceiling of 1.5% in the public sector. Previous attempts to restrict the upward movement of public sector wages and salaries have generally encountered two sets of problems, first, increased wages pressure as the various public sector groups seek restore differentials between themselves and the private sector, and secondly, widespread skill shortages leading to the need to increase wages to attract and retain public sector staffs.

The Department of Employment [Labour Market and Skills Trends 1992] notes that 'there has been a dramatic drop in most measures of reported skill shortage. But this probably owes more to the economic situation than to the improvement that there has been in the skill level of the workforce' [Dept of Employment 1992:17]. The 1992 Skill needs in Britain survey suggests that only 5% of firms surveyed had hard to fill vacancies in 1992. However, the survey indicated that hard to fill vacancies remained strongly rooted in the craft and occupational group, professional and technical groups.

Significantly the Department of Employment report indicates that more than 60% of employers reported that the skills needed by their average employee were increasing and 'a substantial group [15%] still felt that there was a significant gap between the skills of their current employees and those needed to meet their business objectives' [Skill needs in Britain 1992].

Nevertheless, in the short term, such restrictions will act

to widen wage differentials. A further widening of differentials is a likely consequence of current proposals to abolish Wages Councils. Although, once again, skill shortages will limit, in some areas, attempts to reduce wage levels. Furthermore, in the medium term, pressures from the EEC to follow the general pattern and introduce minimum wage legislation is likely.

At present all EEC member states, with the exception of Ireland and the UK have arrangements to ensure that nearly all workers are covered by minimum wages or full coverage collective agreements. The European Commission fears that there will be increased pressure to reduce wages, where this is possible, to increase competition. But this would be unfair in terms of the principles of the single market. It is the view of the European Commission that this should be avoided by requiring employers to pay an equitable wage. Evidence cited by Bazen & Benhayoun [British Journal of Industrial Relations vol 30 no 14 Dec 1992] suggests that the UK has amongst the highest proportion, amongst EEC states, of full time workers earning less than 66% and 80% of median earnings, although a degree of caution is necessary in interpreting the figures.

The Department of Employment has argued that the introduction of a national minimum wage set at 50% of male median earnings would reduce employment by some 750,000. However, experience elsewhere, and research commissioned by the Institute of Personnel Management question this figures. A more realistic assessment would be an impact of some 100,000 jobs.

Firms continued to report downward and negative trends in total employment levels during the third quarter. Steeper downward trends in employment levels were reported in all sectors. The rate of decline in total employment accelerated in manufacturing, construction, retail tourism/leisure and wholesale distribution, a further acceleration is expected for the fourth quarter.

The deepening rate of decline in total employment confirms the views that unemployment will continue to rise well into 1993 and the first part of 1994.

TABLE 1 EMPLOYEES IN EMPLOYMENT IN SCOTLAND: INDUSTRY AGGREGATES ('000s)										
(Figures in square brackets reflect the 1989 and 1990 LFS. The latest estimates reflect the impact of the 1991 LFS.)										
SIC 1980		MALE		FEMALE		TOTAL	Prod/Const	Production	Manuf.	Services
				All	P/T		1-5	1-4	2-4	6-9
1979	June	(1,205)		(897)	(332)	(2,102)	(831)	(676)	(604)	1,224
1989	Mar	(1,015) [1,016]		(914) [924]	(387) [376]	(1,929) [1,941]	(587) [601]	(440) [476]	(401) [418]	(1,314) [1,311]
	June	[1,018]		[941]	[384]	[1,959]	[599]	[474]	[416]	[1,331]
	Sep	[1,034]		[934]	[389]	[1,968]	[594]	[460]	[402]	[1,344]
	Dec	[1,033]		[939]	[401]	[1,972]	[595]	[461]	[402]	[1,349]
1990	Mar	[1,027]		[930]	[395]	[1,957]	[591]	[457]	[397]	[1,337]
	Jun	[1,031]		[942]	[406]	[1,974]	[591]	[458]	[398]	[1,353]
	Sep	[1,040] 1,043		[943] 943	[406] 404	[1,983] 1,986	[597] 594	[465] 464	[405] 405	[1,356] 1,362
	Dec	[1,034] 1,043		[946] 949	[417] 416	[1,980] 1,992	[591] 589	[462] 462	[401] 403	[1,362] 1,376
1991	Mar	[1,021] 1,035		[936] 941	[412] 413	[1,956] 1,978	[573] 571	[449] 450	[388] 391	[1,356] 1,377
	June	[1,015] 1,031	106	[944] 953	[414] 417	[1,959] 1,984	[562] 561	[443] 444	[383] 385	[1,368] 1,394
	Sep	[1,011] 1,026	103	[947] 954	[418] 414	[1,958] 1,984	[560] 567	[443] 444	[383] 385	[1,370] 1,394
	Dec	1,026	105	952	416	1978	543	434	376	1,416
1992	Mar	1,020	112	955	418	1975	535	430	373	1,411
	June	1,026	123	957	419	1983	528	425	368	1,427

Source: Department of Employment Gazette

TABLE 2 EMPLOYMENT: SCOTLAND EMPLOYEES IN EMPLOYMENT (000's)*										
SIC 1980	Agric./ forestry/ fishing	Energy & Water	Metal Man. & chemicals	Metal goods, Eng. & vehicles	Other Man.	Const.	Distribution Hotels & Catering: repairs	T'sport & Comm.	Banking, insurance & finance	Public admin, education & other services
	0	1	2	3	4	5	6	7	8	91-92
1979	48	72	82	258	265	155	[391]	135	123	[573]
1989	[29]	[58]	[47]	[166]	[202]	[125]	[385]	[116]	[174]	[656]
	[30]	[59]	[48]	[168]	[207]	[124]	[387]	[116]	[176]	[664]
	[28]	[60]	[49]	[169]	[206]	[122]	[384]	[116]	[177]	[676]
1990	[28]	[61]	[49]	[168]	[203]	[121]	[374]	[117]	[179]	[678]
	[30]	[61]	[47]	[170]	[207]	[120]	[387]	[115]	[180]	[683]
	[30]	[63]	[47]	[172]	[212]	[120]	[392]	[115]	[182]	[685]
1991	[27]	[59]	[44]	[169]	[189]	[129]	[412]	[108]	[184]	[652]
	[28]	[61]	[43]	[165]	[181]	[123]	[404]	[106]	[189]	[657]
	[29]	[60]	[43]	[158]	[193]	[121]	[410]	[110]	[205]	[654]
	[29]	[60]	[42]	[161]	[180]	[117]	[408]	[107]	[187]	[665]
	[28]	[60]	[42]	[153]	[194]	[116]	[408]	[108]	[182]	[662]
1992	[29]	[59]	[42]	[161]	[180]	[114]	[415]	[112]	[203]	[664]
	28	58	38	155	184	109	418	111	213	664
	28	58	37	153	183	105	411	110	217	673
	27	57	36	147	185	103	419	109	223	676

* Figures in parentheses reflect estimates based on 1987 census and 1989 LFS. The more recent estimates are based on the 1989 census and the preliminary results of the 1990 LFS.

Source: Department of Employment Gazette

TABLE 3 UNFILLED VACANCIES AT JOBCENTRES - SCOTLAND ('000s)					
	Seasonally adjusted			Vacancies at Careers Offices	
	Number	Change since previous month	Average change over 3 months ending	Unadjusted Total	Unadjusted
1989 Jan	20.0	-0.3	-0.1	17.0	0.5
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	21.8	-0.2	-0.2	24.0	0.9
Nov	18.7	-3.1	-1.3	19.4	0.9
Dec	16.6	-2.0	-1.8	15.2	0.6
1991 Jan	19.1	2.5	-0.9	15.6	0.7
Feb	22.6	3.6	1.3	19.8	0.6
Mar	23.9	1.3	2.4	21.8	0.6
Apr	19.3	-4.6	0.1	19.4	0.7
May	17.7	-1.6	-1.6	18.5	0.8
Jun	17.2	-0.5	-2.1	18.8	0.9
Jul	16.2	-1.1	-1.1	17.1	0.8
Aug	15.6	-0.6	-0.7	16.3	0.7
Sep	15.9	0.3	-0.5	18.6	0.6
Oct	17.0	0.5	0.2	19.6	0.6
Nov	17.4	0.4	0.5	18.2	0.6
Dec	17.5	0.1	0.3	15.9	0.4
1992 Jan	17.8	0.3	0.3	14.4	0.5
Feb	18.6	0.8	0.4	15.8	0.4
Mar	18.5	-0.1	0.6	16.9	0.6
Apr	19.5	1.0	0.6	20.1	0.5
May	19.7	0.2	0.4	20.7	0.6
June	19.2	-0.5	0.2	20.9	0.7
July	18.1	-1.1	-0.5	18.4	0.7
August	17.6	-0.5	-0.7	17.8	0.5
September	16.8	-0.8	-0.8	18.9	0.5
October	17.2	0.4	-0.3	19.8	0.5

Source: Department of Employment Press Notice

Note: Figures from October reflect the revised basis of seasonal adjustment from November 1992

TABLE 4: VACANCY FLOWS AT JOBCENTRES, STANDARDISED, SEASONALLY ADJUSTED - SCOTLAND

Date	In-flow		Out-flow		Thousands of which: Placings	
	Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1989 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	1.9	-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	22.4	-0.4	22.9	-0.1	18.7	-0.2
Nov	21.9	-0.4	25.8	1.0	20.6	0.6
Dec	21.1	-0.3	21.8	-0.3	17.6	-0.3
1991 Jan	21.9	-0.1	20.5	-0.8	16.6	-0.7
Feb	22.5	0.2	18.7	-2.4	15.2	-1.8
Mar	21.9	0.2	20.8	-0.3	17.4	-0.1
Apr	22.3	0.1	25.8	1.8	21.6	1.7
May	22.4	0.0	26.0	2.4	21.6	2.1
Jun	20.1	-0.6	20.3	-0.2	16.7	-0.2
Jul	20.0	-0.8	20.7	-1.7	16.9	-1.6
Aug	19.5	-1.0	20.0	-2.0	16.4	-1.7
Sep	20.6	0.2	20.4	0.0	16.8	0.0
Oct	23.0	0.9	21.6	0.2	18.0	0.3
Nov	19.9	0.0	19.7	-0.2	15.7	-0.4
Dec	21.2	0.2	20.6	0.2	17.3	0.2
1992 Jan	20.3	-0.9	20.7	-0.3	17.4	-0.2
Feb	20.3	0.1	19.9	-0.1	16.3	0.2
Mar	21.7	0.2	21.9	0.4	18.3	0.3
Apr	21.3	0.3	21.1	0.1	17.7	0.1
May	21.3	0.3	21.2	0.4	17.8	0.5
June	21.8	0.0	22.1	0.1	18.3	0.0
July	19.5	-0.6	20.5	-0.2	16.7	-0.3
Aug	19.9	-0.5	20.2	-0.3	16.6	-0.4
Sept	20.7	-0.4	21.3	-0.3	17.8	-0.2
Oct	21.2	0.6	19.8	-0.2	16.9	0.1

Source: Department of Employment

Note: Figures from October reflect the revised basis of seasonal adjustment from November 1992

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	Unemp. rate % of working population
1985	243.6	109.3	353.0			14.2
1986	248.1	111.8	359.8			14.5
1987	214.5	87.8	302.3	2.8	-4.1	12.2
1988 Dec	186.7	73.5	260.2	-6.3	-3.3	10.5
1989 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	150.3	51.2	201.5	0.7	0.0	8.1
Feb	153.0	51.7	204.7	3.2	0.7	8.2
Mar	157.0	52.3	209.3	4.6	1.7	8.4
Apr	160.4	54.0	214.4	4.8	2.6	8.5
May	163.9	55.2	219.8	4.7	3.3	8.7
Jun	166.5	55.4	221.9	2.8	3.3	8.8
Jul	169.4	56.2	225.6	3.7	3.8	8.9
Aug	170.9	56.1	227.0	1.4	3.5	9.0
Sep	170.4	55.3	225.7	-1.3	2.7	9.0
Oct	171.0	54.7	225.7	0.0	1.9	9.0
Nov	172.6	54.5	227.1	1.2	1.3	9.0
Dec	173.6	54.3	227.9	1.4	0.9	9.0
1992 Jan	176.0	54.9	230.9	3.0	0.9	9.2
Feb	176.2	55.3	231.5	0.6	0.9	9.2
Mar	175.5	55.8	231.3	-0.2	0.9	9.2
Apr	177.7	56.2	233.9	2.6	1.4	9.3
May	179.1	56.1	235.2	1.3	1.4	9.3
June	180.1	56.4	236.5	1.3	1.4	9.4
July	183.1	57.2	240.3	3.8	1.6	9.5
Aug	185.9	56.9	242.8	2.5	1.9	9.6
Sep	186.8	56.7	243.4	0.7	2.0	9.7
Oct	188.0	56.5	244.5	1.0	1.8	9.7

Source: Department of Employment

TABLE 6: UNEMPLOYMENT FLOWS - STANDARDISED, UNADJUSTED: SCOTLAND ('000s)		
Month ending	In-flow	Out-flow
1989 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
Feb	34.0	32.9
Mar	32.9	31.6
Apr	33.8	31.8
May	30.9	32.7
Jun	31.0	30.9
Jul	44.4	30.5
Aug	32.8	30.9
Sep	33.9	41.0
Oct	34.6	36.3
Nov	34.8	32.1
Dec	32.5	26.9
1992 Jan	34.2	20.6
Feb	33.7	35.1
Mar	31.8	34.2
Apr	33.5	33.1
May	30.4	34.6
June	32.9	34.4
July	48.9	33.3
Aug	35.4	32.9
Sep	37.1	46.0
Oct	38.7	39.8

Source: Department of Employment

REGIONAL REVIEW

INTRODUCTION

In October, Scottish unemployment fell by 1013 to stand at 240,993 on an unadjusted basis. This constitutes 9.5% of the Scottish workforce and represents a monthly decrease of 0.4%. Male unemployment rose by 521 or by 0.3% whilst female jobless fell by 1534 or by 2.7%.

October unemployment totals tend to decrease due to seasonal factors. When adjusted for seasonality, Scottish unemployment is estimated to have risen by 1000 or by 0.4% which comprises an increase in male unemployed of 1200(0.65%) offset by a 200(-0.35%) decrease in female jobless. In October seasonally adjusted Scottish unemployment stood at 244,500. The series of well publicised decreases in headline unemployment continues to mask a deteriorating underlying performance.

The Scottish experience compares favourably with that of Great Britain. British unemployment decreased by 29,004 or by 1.1% to stand at 2,707,976 in October 1992. When seasonal factors are taken into account British jobless increased by 24,500 or by 0.9% to stand at 2,759,900. This rise comprises an increase in male unemployment of 21,900(1.1%) and an increase of 2,600(0.4%) in female jobless.

In the period January-October 1992, seasonally adjusted unemployment in Scotland has risen by 13,600 or by 5.9%. On an unadjusted basis, Scottish unemployment has fallen by 1,431 or by 0.6% since January. In GB, the seasonally adjusted count has advanced by 256,600 or 10.3% in the 9 months to October. The unadjusted total has risen by 138,904 or by 5.4%.

Thus, so far this year, Scotland continues to experience a significantly weaker rise in joblessness than evident in Britain as a whole. In March, the seasonally adjusted Scottish unemployment rate fell below that of GB. This is the first such occurrence since the series was first compiled in 1974. In October, the adjusted Scottish rate constituted 97% of the British average.

Figure 1 presents the Scottish and British unemployment rate for the period 1975-1992. In addition, the unadjusted Scottish jobless rate has not been below the British average since records started in the 1920s. The performance of the Scottish labour market across the present recession continues to be strong in comparison with the rest of the country. However, it should not be forgotten that unemployment is rising in Scotland albeit at a slower rate than elsewhere.

UNEMPLOYMENT IN THE BRITISH REGIONS

In this section, we consider the varying fortunes of British regional labour markets across the present recession with reference to the trend in seasonally adjusted unemployment and vacancies. In the next section we discuss the regional changes in the civilian workforce in employment and its constituents.

Figure 2 sets the trend in seasonally adjusted unemployment for Scotland, Britain and 3 constructed regions. In this presentation, unemployment is indexed with a base at January 1989. Figure 2 illustrates that the recession has bitten earlier and most severely the further south one looks.

The South of England comprises London, the South East, South West and East Anglia. Midlands & Wales comprises East and West Midlands plus Wales whilst the North of England encompasses Yorkshire & Humberside, the North West and Northern Region. These definitions apply in figures and Tables 2-4 and 6.

The number of British jobless bottomed out at 1,498,100 in April 1990, on an adjusted basis. In the period to October 1992, GB seasonally adjusted unemployment increased by 1,261,800 to stand at 2,759,900. The regional changes across the recession are as follows:-

Total unemployment change - April 1990-October 1992

	ch	%
South of England	732,600	157.7
Midlands & Wales	264,200	81.5
North of England	223,300	44.1
Scotland	41,000	20.1
GB	1,261,800	92.9

The South of England accounts for circa 58% of the rise in British unemployment across the recession. Scotland's jobless total did not begin to rise until the autumn of 1990 and has risen less sharply than elsewhere throughout the period. Thus far, Scotland has contributed circa 3.25% of the rise in the British jobless total.

The regional pattern is maintained for both sexes. The number of British male jobless increased 1,018,800 to stand at 2,115,300. The regional distribution of male unemployment change is as follows:-

Male unemployment change - April 1990-October 1992

	ch	%
South of England	570,600	170.5
Midlands & Wales	316,700	91.6
North of England	191,500	50.8
Scotland	39,600	26.7
GB	1,108,800	92.9

The number of British female unemployed increased from 401,600 in April 1990 to 644,600 in October 1992. The regional variation in the rise of female jobless across the recession is as follows:-

Female unemployment change - April 1990-October 1992

	ch	%
South of England	162,200	124.7
Midlands & Wales	47,500	54.1
North of England	31,800	24.7
Scotland	1,400	2.5
GB	243,000	60.5

Male unemployment has increased more sharply than female in all regions. This in part reflects the 'discouraged worker effect' in that a larger proportion of females who lose their jobs are not eligible to claim benefit and thus do not appear in the unemployed count. For both sexes, the rise in unemployment is greatest the further south one looks.

As a result of this disparate performance, the unemployment rate differential between 'north' and 'south' has narrowed considerably. Figure 3 sets out regional unemployment rates as a proportion of the British rate for the January 1989 to October 1992 period. This figure illustrates the marked convergence of regional unemployment rates across the present recession due to rates rising faster in the south compared to Scotland and the North. The unemployment relatives are as follows:-

Relative unemployment position

	Oct 90	Oct 91	Oct 92
South of England	66.7	74.6	97.0
Midlands & Wales	103.5	101.7	102.0
North of England	138.6	130.5	107.0
Scotland	154.4	135.6	97.0
GB	100.0	100.0	100.0

In October 1990, the seasonally adjusted unemployment rate in the South of England was 70.6% of the GB rate. This differential has narrowed steadily across the recession to stand at 97.0% in October 1992. In Midlands and Wales, the rate has risen broadly in line with the

rising British trend culminating in a fairly static relative position. In the North of England, the relative unemployment rate has declined markedly over the period from 138.8% in October 1992 to 107.0% in October 1992.

The improvement in the relative position of Scotland is more dramatic than that of the North. In October 1990, The Scottish unemployment rate was 1.54 times the British average. By October 1992, the Scottish rate stood at 97.0% of the British equivalent. Thus, despite weakly rising unemployment, Scotland has performed relatively well across the present recession.

The level of unfilled vacancies has also held up relatively well in Scotland and the North. In October 1992, Scottish vacancies stood at 74.1% and North of England vacancies 54.0% of their January 1990 stock. At present British vacancies are at 48% of the January 1990 level, Midlands & Wales vacancies 43.9% and South of England vacancies 39.5%.

Figure 4 presents the trend in the 'U/V' ratio for Scotland and Britain for the period since January 1989. The 'U/V' ratio measures the number of unemployed chasing each vacancy. This ratio is a standard indicator of the tightness of the labour market. Figure 4 indicates that, since mid 1990, the numbers of jobless pursuing each vacancy in Scotland has been below those evident in GB. The regional distribution of 'U/V' ratios across the present recession is as follows:-

'U/V' ratios: 1990-1992

	Oct 90	Oct 91	Oct 92
South of England	10.9	24.6	36.2
Midlands & Wales	10.8	24.9	32.0
North of England	13.6	25.1	29.5
Scotland	9.2	13.3	14.2
GB	11.3	23.0	29.6

In the South of England, the 'U/V' ratio has increased sharply in both absolute and relative terms. The 'U/V' ratio in the South of England has deteriorated from 96% of the GB level in October 1990 to 122.3% of the British average in October 1992. The experience of Midlands & Wales is only moderately better. The 'U/V' ratio in Midlands and Wales rose from 95.6% of the GB level in October 1990 to 108.1% in October 1992.

In Scotland and the North of England 'U/V' ratios have been rising less sharply than in the South. Consequently, the ratio in the North of England stood at 118.9% of the British level in October 1990 and 99.8% in October 1992. In Scotland, the 'U/V' ratio rose from 9.2 vacancies per jobless in October 1990 to 14.2 in October 1992. This represents a fall from 81.3% of the British average to 48.1% between October 1990 and 1992. This emphasises the relatively strong position of Scotland

relative to GB and illustrates the comparative buoyancy of Scottish labour markets. The position in Scotland continues to worsen less severely than in other parts of the country.

SCOTTISH EMPLOYMENT CHANGE ACROSS THE RECESSION

In this section, we examine changes in the demand for labour in Scotland and in the 3 broad GB regions. We consider changes in the Civilian Workforce in Employment (CWE) for the period June 1990 to June 1992. The CWE comprises 3 elements

- (a) Employees in Employment (EE)
- (b) Self Employed(SE)
- (c) Work Related Government Programmes (WRGP)

We conducted a similar analysis in the previous commentary on the basis of March 1990 to March 1992. In the interim, a further quarter has been made available and the series revised back to January 1989. This does not alter our previous conclusion that Scotland performed poorly in job creation in comparison to the Midlands and South across the long 1980s cycle. In the foregoing analysis, we refer to the period June 1990 to June 1992 as the present recession.

Across the present recession, the British CWE has declined by 1,535,864 or by 5.9% to stand at 24,467,265. In Scotland, the fall has been less dramatic. In the period June 1990-June 1992, the CWE in Scotland decreased by 9364 or 0.4% to stand at 2,259,784. The change in the components of the CWE are as follows:-

Civilian Employment Change - June 1990-June 1992

	GB		Scotland	
	ch	%	ch	%
EE	-1,131,954	-5.1	3,908	0.2
SE	-309,252	-9.6	98	-0.0
WRGP	-94,658	-23.1	-13,174	-23.4
CWE	-1,535,864	-5.9	-9,364	-0.4
CWE-WRGP	-1,441,206	-5.6	3,810	0.2

Across the recession, thus far, the Scottish workforce has held up better than in other parts of Britain. Whilst GB has shed 1.1m employees, Scotland has exhibited a slight increase of 3,908. Similarly, British self employment has fallen by 309,252 over a period when the position in Scotland remained static. In consequence the CWE, whether including Government schemes or not has remained firm in comparison with GB.

Although, not declining as fast as in other GB regions, the Scottish CWE has experienced a sharper deterioration in the year to June 1992. The changes in the CWE and

its components in Scotland and GB for the period June 1991 to June 1992 are as follows:-

Civilian Employment Change - June 1991-June 1992

	GB		Scotland	
	ch	%	ch	%
EE	-471,187	-2.2	-617	-0.0
SE	-152,742	-5.0	-20,060	-7.9
WRGP	-17,202	-5.2	-3,116	-6.7
CWE	-641,131	-2.6	-23,793	-1.0
CWE-WRGP	-623,929	-2.5	-20,677	-0.9

In the year to June 1992, the Scottish workforce contracted by 23,793 or by 1.0%. This compares favourably with a fall of 641,131(2.6%) evident in Britain. It is the strong trend in employees which underpins the Scottish performance. In the period to June 1992, Scottish employment decreased by 617 compared with a fall of 471,187(-2.2%) in Britain.

The situation concerning Scottish employment during the present recession is worth of further investigation. The change in employment at the level of the broad industrial sectors is as follows:-

Employment Change - June 1990 to June 1992

SIC Description	Britain		Scotland	
	ch	% ch	ch	%ch
0-1 Primary	- 60,249	-8.4	- 3,702	-4.2
2-4 Manufacturing	-541,062	-10.8	-30,217	-7.6
5 Construction	-215,994	-20.7	-28,033	-21.4
6-9 Services	-314,649	-2.0	65,860	4.8
1-5 Production	-586,572	-10.7	-31,612	-6.9
Services				
6-8 Private	-381,663	-4.3	39,385	5.5
9 Public	67,014	1.0	26,475	4.1
0-9 Total	-1,131,954	-5.1	3,908	0.2

The strong Scottish employment performance compared with GB is grounded upon a smaller decline in manufacturing and production offset by a favourable trend in services. Only in the Construction sector has the fall in jobs been more severe in Scotland.

The performance of service employment in Scotland is stronger in both the public and private sectors. In Scotland, employment in SIC Div 6, Hotels, Catering and Distribution has increased by 9,424 or by 2.3%. This compares favourably with a British decline of 220,929 or 4.7%. In SIC Div 7, Transport and Communication, Scottish employment has fallen by 2,763 or by 2.5%. In

GB, the decline has been sharper. British employment has fallen by 56,237 or by 4.1%.

In Banking, Insurance, Finance and Leasing, SIC Div 8, Scottish employment has increased by 32,724 or by 17.2% across the present recession. In GB, employment in this sector declined by 104,497 or by 3.7%. The South of England is the only area recording a decline in Finance employment across the present recession. In (Mainly) Public Services, SIC Div 9, employment increased in both Scotland and GB. North of the border, 'public' service jobs increased by 26,475 or by 4.1% whilst in GB the rise was a more modest 1.0%.

In our view, the performance of Scottish SIC Div 6 and SIC Div 8 employment is both noteworthy and surprising. Clearly, Scottish private service job creation has not been phased by the present recession. In services, this is likely to change in the coming period. Most commentators view that services will be subject to rapid productivity growth across the first part of the 1990s and recent announcements tend to support this conclusion. Thus we expect that the Scottish service sector is unlikely to be a main engine of job creation in the 1990s.

In the June 1990-June 1992 period, the Scottish labour market has performed particularly well in comparison with other GB regions. The current recession has yet to run its full course and in the next 2-3 years, job creation in Scotland and elsewhere is likely to be weak. There is now little reason to expect that Scotland will continue to be relatively immune from the adverse employment trend forecast for Britain.

TIME SERIES ANALYSIS

In a previous section, we analysed Scottish, GB and regional unemployment with respect to the Department of Employment seasonally adjusted series. This series also adjusts for the numerous revisions to the unemployment count which have taken place across the 1980s. No such adjustments are undertaken for areas below the UK Standard Regions.

Table 1 presents information on Scottish unemployment for the 12 months to October 1992. During this period, Scottish unemployment increased by 19,524 or by 8.9%. In consequence, the unemployment rate rose from 8.7% to 8.9% of the Scottish workforce. In Britain, unemployment rose by 383,427 or by 16.5% and the rate increased from 8.4% to 9.7% of the Scottish workforce. On the basis of the unadjusted series, the Scottish unemployment rate stands clearly below the corresponding British measure.

Male unemployment in Scotland rose by 17,416 or by 10.4% in the year to October 1992. This compares favourably with the 17.5% rise evident in GB. In GB,

male unemployment increased by 308,006 in the year to October and currently stands at 2,070,601. In this period, Scottish female unemployment rose by 2,108 or by 4.0% which is extremely modest in comparison 13.4% rise recorded in Britain. In the period, British female jobless increased by 75,421 to stand at 637,374 in October 1992. In October 1992, the Scottish male rate stood at 12.8% and the female rate at 5.1%. The Scottish male rate is below the 13.1% rate evident in GB whilst the female rate is lower than the 5.4% posted nationally.

In the current quarter, total Scottish unemployment decreased by 6,256 or by 2.5%. In this period, British unemployment increased by 44,128 or 1.7%. Scottish male unemployment rose by 924 or by 0.5% whilst the female count fell by 7,180 or by 11.5%. In Britain, the number of male jobless rose by 44,488 or by 2.2% whilst the female count declined by 360 or by 0.1%. Thus, on an unadjusted basis, Scotland experienced a particularly good quarter in which the changes in total and male unemployment were smaller than those evident in each of the 3 constructed regions.

In terms of seasonally adjusted unemployment, the quarterly increase in male jobless is estimated to be 4,900 or 2.7%. This compares favourably with a 4.2%(84,300) increase evident in Great Britain. In the current quarter, Scottish seasonally adjusted male unemployment rose more slowly than in all GB regions excepting the North of England. The Scottish female count is projected to have fallen by 700 or by 1.2%. This contrasts with a rise of 22,800 or 3.7% posted in GB and is a better outcome than evident in any of the British regions.

Thus, in the previous quarter, total seasonally adjusted unemployment in Scotland rose by 4,200 or by 1.7%. In this period British jobless grew by 107,100 or by 4.0%. The quarterly increase in Scotland was more moderate than in the British region. Following a poor quarter to July in which Scottish unemployment grew more quickly in GB, we see a return to the typical position across the recession in which rises in Scottish jobless are less than in GB and its constituent regions.

UNEMPLOYMENT IN THE SCOTTISH REGIONS

Table 2 sets out total unemployment and related statistics for Scotland, its regions and islands, GB and its broad regions for the year to October 1992. Quarterly and monthly changes are also indicated although these require careful interpretation and are best used to inform inter-regional comparisons.

The trend in Scottish regional unemployment is set out below with reference to an index based at October 1990. In addition, the change over the year to October 1992 is set out.

Scottish regional unemployment change - October 1990-October 1992

Region	Oct1990=100		% ch 91/92
	Oct 91	Oct 92	
Borders	144.6	155.7	7.7
Central	108.5	115.1	6.1
Dumfries & G/way	117.9	133.0	12.8
Fife	121.1	133.4	10.2
Grampian	119.4	151.5	26.8
Highland	111.9	131.7	17.7
Lothian	119.6	134.6	12.5
Strathclyde	112.0	118.3	5.6
Tayside	114.1	125.8	10.2
Orkney Islands	99.5	106.9	7.4
Shetland Island	101.4	110.7	9.1
Western Isles	110.5	123.4	11.7
Scotland	114.2	124.3	8.9

Examination of this data indicates that Borders, Grampian, Lothian, Fife, Dumfries & Galloway, Highland and Tayside have fared worse than the Scottish average across the present recession. Initially, Grampian, Highland and the northern islands appeared insulated from the general downturn through linkages to the buoyant North Sea sector and due to a strong trend in Agriculture, forestry and Fishing. In the year to October, Grampian(26.8%) and Highland(17.7%) have experienced the sharpest rises in total unemployment suggesting that the beneficial impact of the oil sector on these areas is diminishing. However, the unemployment rate in these areas remains well below the Scottish and GB averages.

The differential performance of the Scottish regions across the present recession has tended to promote convergence in regional unemployment rates. For the period October 1990-October 1992, the regional unemployment rates as a percentage of the Scottish average are as follows:-

**Relative unemployment - October 1990-October 1992
Persons**

Region	Oct 90	Oct 91	Oct 92
Borders	47.4	59.8	58.9
Central	103.8	101.1	97.9
Dumfries & G/way	76.9	80.5	83.2
Fife	105.1	112.6	113.7
Grampian	41.0	43.7	50.5
Highland	88.5	88.5	94.7
Lothian	80.8	85.1	87.4
Strathclyde	125.6	125.3	121.1
Tayside	89.7	90.8	91.6
Orkney Islands	53.8	47.1	46.3
Shetland Islands	37.2	33.3	33.7
Western Isles	142.3	135.6	138.9
Scotland	100.0	100.0	100.0

This data indicates, for example, that the total unemployment rate in Fife rose from 105.1% of the Scottish rate in October 1990 to 113.7% in October 1992. All regions except Fife, Orkney and Shetlands have unemployment rates closer to the Scottish average at present than compared with the beginning of the recession.

In general, there is a tendency for areas that were experiencing below average unemployment rates before the recession to suffer faster unemployment growth prompting a convergence of Scottish regional unemployment rates around the rising Scottish average. In the recession so far, British regional unemployment rates have tended to converge upon the rising national position. In Scotland, unemployment has increased relatively slowly and LA regional unemployment rates have shown a clear but less marked tendency to converge upon the Scottish rate.

Fife is unique in possessing relatively high jobless rates and a deteriorating position relative to Scotland across the present recession. The peace 'dividend' has and continues to cast a long shadow across the Fife labour market. Strathclyde, Central and Western Isles also suffered relatively high unemployment prior to the recession. However, unlike Fife, these areas have deteriorated less slowly than in Scotland.

In the case of Central, the relative unemployment rate has improved from 103.8% of the Scottish rate in October 1990 to 97.9% in October 1992. Central constitutes the Scottish mainland region with the slowest growth of unemployment over the recession and in the year to October 1992. Strathclyde has the second weakest jobless growth on these criteria. In consequence, Strathclyde, like the Western Isles have seen slight improvements in their unemployment position relative to Scotland.

The remaining Scottish region all presented unemployment rates below the Scottish average in October 1990. All, excepting Orkney and Shetlands, have experienced jobless growth faster than the Scottish average. In the initial stages of the recession, the regions in the South of Scotland fared badly. Unemployment in Borders increased by 44.6% between October 1990 and October 1992 and represented the worst regional experience.

In the year to October 1992, unemployment increased in Borders by 7.7% which was below the Scottish average of 8.9%. In Dumfries and Galloway, the rate of increase in jobless has moderated to 12.8% from 17.9% between October 1990 and 1991. Dumfries & Galloway represents the Scottish LA region with the 3rd highest rise in unemployment in the period to October 1992.

In Lothian, Grampian, Highland and Tayside, unemployment change has been greater than the Scottish average both across the recession and in the year to October 1992. These areas possessed relatively low

unemployment prior to the recession and have subsequently converged upon the rising national rate.

In Grampian and Highland, the rate of unemployment growth has been faster in the year to October 1992 than in the previous year. This unfortunate characteristic is also shared by the Island areas but is not evident in the southern part of the country where the rate of increase in jobless is moderating.

Information on the unemployment position facing males and females in the Scottish LA regions is set out in Tables 3 & 4. In the 12 months to October 1992, Scottish male unemployment increased by 17,416 or by 10.4% whilst female claimants increased by 2,108 or by 4.0%. These changes compare favourably with the sharp increases evident in GB and its regions.

The trend in Scottish regional male unemployment is set out below with reference to an index based at October 1990. In addition, we present the change over the year to October 1992.

Scottish Regional Unemployment Change - October 1990-October 1992

Males

Region	Oct1990=100		% ch 91/92
	Oct 91	Oct 92	
Borders	145.4	158.9	9.3
Central	114.3	123.4	8.0
Dumfries & G/way	120.5	140.7	16.7
Fife	123.2	138.4	12.4
Grampian	123.6	161.9	31.0
Highland	115.2	137.9	19.7
Lothian	121.5	137.4	13.1
Strathclyde	114.2	122.2	7.1
Tayside	116.3	130.6	12.3
Orkney Islands	99.3	107.3	8.0
Shetland Islands	100.9	113.9	12.9
Western Isles	113.8	129.2	13.6
Scotland	116.6	128.7	10.4

In the year to October 1992, the sharpest increases in male unemployment were posted in Grampian(31.0%), Highland(19.7%), Dumfries & Galloway(16.7%), Western Isles(13.6%), Lothian(13.1%), Fife(12.4%) and Tayside(12.3%). Only Orkney(8.0%), Strathclyde(7.1%), Borders(9.3%) and Central(8.0%) experienced unemployment growth below the national average.

The relative unemployment rate for males across the October 1990-October 1992 period are as follows:-

Relative unemployment - October 1990-October 1992 Males

Region	Oct 90	Oct 91	Oct 92
Borders	46.5	57.8	57.0
Central	102.0	100.9	98.4
Dumfries & G/way	67.3	69.0	73.4
Fife	102.0	106.9	109.4
Grampian	36.6	38.8	46.1
Highland	87.1	86.2	93.8
Lothian	85.1	87.9	89.8
Strathclyde	129.7	127.6	123.4
Tayside	88.1	87.1	89.1
Orkney Islands	45.5	38.8	38.3
Shetland Islands	31.7	27.6	28.1
Western Isles	132.7	125.9	129.7
Scotland	100.0	100.0	100.0

For males, the process of convergence is less marked. In Fife, Orkney, Shetland the male rate has diverged from the rising national trend. Clearly the position of Fife is most disturbing.

In the 12 months to October 1992, Scottish female employment rose by 2,108 or by 4.0% which compares favourably with an increase of 13.4% evident in the UK. In this period, Grampian(16.5%), Highland(11.8%) and Lothian(10.3%) suffer the sharpest rise in female jobless. The areas experiencing the weakest trend in female unemployment are Strathclyde(0.5%) and Central(0.9%).

Across the recession to date, Borders(47.3%), Grampian(28.5%), Lothian(25.8%) and Fife(20.6%) have shown the most marked increases in female unemployment. In Central, the female jobless count has decreased by 4.5% in the 2 years to October 1992. The shallowest increases are evident in Strathclyde(5.8%), Orkney(5.9%), Shetland(4.3%) and Western Isles(5.5%).

QUARTERLY ANALYSIS

Tables 2 to 4 set out details of the absolute and percentage changes in unemployment for the quarter to October 1990. In this period, total Scottish unemployment decreased by 6,256 or by 2.5%. This comprises a rise in male unemployment of 924 or 0.5% and a sharp seasonal fall of 7,180 female claimants. This constitutes a decrease of 11.5%.

In terms of total unemployment, the LA regions in central and southern Scotland all experience decreases in the jobless count. Western Isles(13.3%), Highland(13.3%), Orkney(9.7%), Grampian(4.1%) and Shetland(3.2%) all fail to capitalise upon the falling quarterly trend. The sharpest quarterly declines are evident in Dumfries & Galloway(-6.2%), Borders(-5.9%) and Tayside(-5.0%).

In the case of males, 5 of the 12 Scottish LA regions post declines in unemployment. These are Dumfries &

Galloway(-2.5%) , Tayside(-2.1%), Borders(-1.4%), Strathclyde(-1.1%) and Lothian(-0.2%). The sharpest increases were recorded in Western Isles(19.3%), Highland(17.9%), Grampian(8.6%) and Shetlands(6.1%).

In the quarter to October 1992, 10 of the 12 Scottish LA regions experienced falls in the female jobless total. In Orkney, female unemployed rose by 23.3% over the quarter whilst, in Highland, the female count increased by 0.9%. The largest falls are evident in Borders(-16.6%), Dumfries & Galloway(-14.6%), Strathclyde(-14.5%), Tayside(-12.3%) and Central(-10.7%).

Thus, in the current quarter, the northern part of the country is experiencing the fastest rates of increase in the male jobless and the weakest performance in terms of females. In the quarter, Scotland's unemployment growth was more moderate than in Britain. This is largely due to the poor showing of those regions above the Highland fault.

VACANCY LEVELS

Table 5 sets out registered vacancies in the Scottish regions whilst Table 6 presents the 'U/V' ratio. In the year to October 1992, unfilled Scottish vacancies increased by 218 or by 1.1%. In 3 of the 12 regions, the stock of vacancies declined. The sharpest contraction is evident in Lothians which experienced a fall of 826 vacancies which constitutes a decrease of 30.4%. Borders(-9.5%) and Strathclyde(-0.2%) also experienced declines in the vacancy level. The strongest annual increases are evident in Shetland(127.3%), Orkney(33.3%), Dumfries and Galloway(30.1%) and Highland(27.3%).

In the quarter to October 1992, Scottish vacancies increased by 1,329 or by 7.2%. The sharpest increases are evident in Central(34.9%), Dumfries & Galloway(32.5%), Tayside(31.5%), Grampian(23.6%) and Fife(22.4%). Lothians(-14.1%) and Border(-7.0%) are the only 2 regions recording a fall in the stock of unfilled vacancies.

Table 6 sets out the "U/V" ratio for both the British and Scottish regions for the 2 years to October 1992. The "U/V" ratio indicates the numbers of unemployed pursuing each available vacancy. It is estimated that circa 30% of all vacancies appear in these statistics suggesting that the true ratios are likely to be smaller than those set out in Table 6.

In October 1992, 12.1 unemployed Scots were pursuing each vacancy. This ratio has risen steadily from 8.0 at October 1990 indicating a gradual tightening of the labour market across the recession. In GB, the U/V ratio has increased more than 2.5 times between October 1990 and October 1992. In October 1992, Scottish regions account for the 5 most favourable ratios from the 66 GB counties.

At the onset of recession, 3 Scottish regions exhibited "U/V" ratios above the British level of 9.4 unemployed per vacancy. These were Western Isles(11.3), Fife(10.9) and Strathclyde(9.7). By October 1990, all Scottish ratios were considerably below the GB average of 23.3. The areas which presently exhibit the most adverse "U/V" ratios are Lothians (17.8), Fife(16.6), Western Isles(16.3), Strathclyde(14.1) and Tayside(14.0).

In addition, the ranks of the Scottish regions have fallen considerably in this period. In October 1990, only Grampian and Borders were represented amongst the 10 GB counties exhibiting the most favourable "U/V" ratios. The average rank of the Scottish LA regions was 36.7. In October 1992, Scotland accounted for 7 of the 10 best placed counties in on this criterion. The average Scottish rank has fallen to 24.4. Thus, although Scottish labour markets have deteriorated over the recession, the situation in Scotland is considerably less adverse than in GB and most parts therein.

INTRA-REGIONAL VARIATIONS

It is clear from the foregoing analysis that there are significant variations in the fortunes of Scottish regional labour markets. However, substantial diversity in performance exists within regional boundaries and this section seeks to examine these intra-regional disparities. We employ data relating to Travel to Work Areas(TTWAs) of which there are 57 on mainland Scotland plus 3 Islands. There are 322 British TTWAs.

Table 7 sets out unemployment in regional TTWAs for the period October 1991-92. In October 1992, Cumnock and Sanquhar remains the Scottish TTWA with the highest unemployment rate. This area remains the top British unemployment blackspot. In general, Scottish TTWAs have tended to slip down the GB rankings across the current recession.

In October 1992, Aberdeen represents the TTWA with the 4th lowest unemployment rate. Shetland is the topped rank TTWA in this respect. Although Grampian constitutes the GB mainland region with the lowest jobless rate, it should be noted that Grampian is the Scottish region with the highest "high-low" ratio. Both Forres and Keith constitute TTWAs with above average unemployment rates. Indeed, in the year to October 1992, Forres has fallen down the GB rankings from 28 to 22 whilst Aberdeen's rank remained static.

Examination of the TTWAs indicates that the rural area have tended to experience the sharpest increases in unemployment across the present recession and in the year to date. The unemployment blackspots have tended to exhibit more modest increases in claimants. However, despite the changing geography of both Scottish and British unemployment across the recession, 2 clear messages remain.

First, there are localities in the Scottish Central Belt and

across the North where unemployment rates and long term unemployment incidence has been marked worse than elsewhere for a generation. These tended not to benefit unduly from the strong period of labour demand in the late 1980s. This recession has tended to boost southern jobless rates nearer to these totally unacceptable levels. It is likely that the present rises in unemployment in the South are likely to be cyclical in nature. It is a different story in Scotland and the North.

Second, unemployment is set to increase in the coming period. Although increases in Scottish unemployment may be more muted than elsewhere, there will still be a tight labour market and excess supply of unwanted blue collar workers. Most forecasters do not expect services to be a strong source of employment growth. If we wish to check the growth of the social problems which attend concentrations of high and persistent unemployment, then labour market policy must recognize that there are no jobs for a growing number of people in the coming period.

In conclusion, we repeat our condemnation of the charade which passes for UK labour market policy. Even in East Germany policymakers are coming to recognize that training people for jobs that don't exist is a futile and dispiriting experience for all concerned. For many of the unemployed at the top of the 1980s cycle, the route into the formal labour market was effectively blocked. The numbers of such people are increasing by the month. As was set out in the previous Commentary, the case for a Community Programme type scheme seems unanswerable. Sadly, the recent Autumn Statement provided little sign of the required change in thinking.

TABLE 1: UNEMPLOYMENT TOTALS - UNADJUSTED TIME SERIES, SCOTLAND							
Month	Unemployment rate*	Total	Monthly % change	Male	Monthly % Change	Female	Monthly % Change
1991 Oct	11.6	220,396	-0.70	167,328	0.21	53,068	-3.47
Nov	11.8	223,599	1.45	170,335	1.80	53,264	0.37
Dec	12.1	228,766	2.31	175,152	2.83	53,614	0.66
1992 Jan	12.7	241,351	5.50	184,108	5.11	57,243	6.77
Feb	12.6	239,822	-0.63	182,280	-0.99	57,542	0.52
Mar	12.5	237,576	-0.94	180,481	-0.99	57,095	-0.78
Apr	12.5	237,897	0.14	180,961	0.27	56,936	-0.28
May	12.4	233,128	-2.00	175,501	-1.36	54,627	-4.06
Jun	12.3	231,782	-0.58	177,073	-0.80	54,709	0.15
Jul	12.7	246,176	6.21	183,820	3.81	62,356	13.98
Aug	12.9	249,145	1.21	186,611	1.52	62,534	0.29
Sep	12.7	240,933	-3.30	184,223	-1.28	56,710	-9.31
Oct	12.8	239,920	-0.42	184,744	0.28	55,176	-2.70

Source: Department of Employment

TABLE 2: TOTAL UNEMPLOYMENT BY REGION: UNADJUSTED												
	% rate Oct 1992		Total Oct 1992	Total Oct 1991	Annual Change		Total Jul 1992	Quarterly Change		Total Sep 1992	Monthly Change	
	Narrow	Wide			Total	%		Total	%		Total	%
Borders	6.9	5.6	2,715	2,521	194	7.7	2,884	-169	-5.9	2,752	-37	-1.3
Central	10.6	9.3	11,614	10,942	672	6.1	11,874	-260	-2.2	11,778	-164	-1.4
Dumfries & Galloway	9.9	7.9	5,523	4,896	627	12.8	5,889	-366	-6.2	5,538	-15	-0.3
Fife	12.4	10.8	15,782	14,318	1,464	10.2	15,910	-128	-0.8	15,700	82	0.5
Grampian	5.5	4.8	13,289	10,477	2,812	26.8	12,762	527	4.1	12,855	434	3.4
Highland	11.0	9	9,294	7,898	1,396	17.7	8,202	1,092	13.3	8,688	606	7.0
Lothian	9.3	8.3	33,734	29,992	3,742	12.5	34,330	-596	-1.7	34,173	-439	-1.3
Strathclyde	13.1	11.5	128,596	121,780	6,816	5.6	134,332	-5,736	-4.3	129,737	-1,141	-0.9
Tayside	10.1	8.7	16,794	15,239	1,555	10.2	17,671	-877	-5.0	17,241	-447	-2.6
Orkney Islands	6.2	4.4	452	421	31	7.4	412	40	9.7	399	53	13.3
Shetland Islands	4.0	3.2	382	350	32	9.1	370	12	3.2	393	-11	-2.8
Western Isles	17.9	13.2	1,745	1,562	183	11.7	1,540	205	13.3	1,679	66	3.9
Scotland	10.9	9.5	239,920	220,396	19,524	8.9	246,176	-6,256	-2.5	240,933	-1,013	-0.4
South of England	11.0	9.5	1,176,819	942,046	234,773	24.9	1,132,265	44,554	3.9	1,180,542	-3,723	-0.3
Midlands & Wales	11.5	9.9	576,160	502,979	73,181	14.5	570,421	5,739	1.0	585,420	-9,260	-1.6
North of England	12.0	10.5	715,077	659,128	55,949	8.5	714,986	91	0.0	730,085	-15,008	-2.1
GB	11.4	9.8	2,707,976	2,324,549	383,427	16.5	2,663,848	44,128	1.7	2,736,980	-29,004	-1.1

Source: Department of Employment

TABLE 3: MALE UNEMPLOYMENT BY REGION: UNADJUSTED

TABLE 3: MALE UNEMPLOYMENT BY REGION: UNADJUSTED												
	% rate Oct 1992		Total Oct 1992	Total Oct 1991	Annual Change		Total Jul 1992	Quarterly Change		Total Sep 1992	Monthly Change	
	Narrow	Wide			Total	%		Total	%		Total	%
Borders	10	7.3	2,005	1,835	170	9.3	2,033	-28	-1.4	2,007	-2	-0.1
Central	15.1	12.6	8,771	8,124	647	8.0	8,692	79	0.9	8,856	-85	-1.0
Dumfries & Galloway	12.8	9.4	3,973	3,403	570	16.7	4,074	-101	-2.5	3,984	-11	-0.3
Fife	16.8	14	11,806	10,508	1,298	12.4	11,533	273	2.4	11,651	155	1.3
Grampian	7.2	5.9	9,773	7,458	2,315	31.0	9,002	771	8.6	9,317	456	4.9
Highland	15.7	12	7,046	5,888	1,159	19.7	5,975	1,071	17.9	6,572	474	7.2
Lothian	13.6	11.5	25,950	22,936	3,014	13.1	26,005	-55	-0.2	26,082	-132	-0.5
Strathclyde	18.8	15.8	101,040	84,373	6,667	7.1	102,115	-1,075	-1.1	101,293	-253	-0.2
Tayside	14.1	11.4	12,429	11,070	1,359	12.3	12,691	-262	-2.1	12,594	-164	-1.3
Orkney Islands	7.6	4.9	309	286	23	8.0	296	13	4.4	280	29	10.4
Shetland Islands	5	3.6	262	232	30	12.9	247	15	6.1	280	-18	-6.4
Western Isles	25.3	16.6	1,380	1,215	165	13.6	1,157	223	19.3	1,307	73	5.6
Scotland	15.5	12.8	184,744	167,328	17,416	10.4	183,820	924	0.5	184,223	521	0.3
South of England	15.5	12.6	886,061	703,930	183,131	26.0	855,004	32,057	3.7	885,322	1,739	0.2
Midlands & Wales	16	13.2	442,468	382,905	59,563	15.6	435,006	7,462	1.7	445,299	-2,831	-0.6
North of England	17	14.2	556,328	508,432	47,896	9.4	552,283	4,045	0.7	562,721	-6,393	-1.1
GB	16	13.1	2,070,601	1,762,595	308,006	17.5	2,026,113	44,488	2.2	2,077,565	-6,964	-0.3

Source: Department of Employment

TABLE 4: FEMALE UNEMPLOYMENT BY REGION: UNADJUSTED												
	% rate Oct 1992		Total Oct 1992	Total Oct 1991	Annual Change		Total Jul 1992	Quarterly Change		Total Sep 1992	Monthly Change	
	Narrow	Wide			Total	%		Total	%		Total	%
Borders	3.7	3.4	710	686	24	3.5	851	-141	-16.6	745	-35	-4.7
Central	5.5	5.1	2,843	2,818	25	0.9	3,182	-339	-10.7	2,922	-79	-2.7
Dumfries & Galloway	6.2	5.6	1,550	1,493	57	3.8	1,815	-265	-14.6	1,554	-4	-0.3
Fife	7	6.4	3,976	3,801	166	4.4	4,377	-401	-9.2	4,049	-73	-1.8
Grampian	3.4	3.2	3,516	3,019	497	16.5	3,760	-244	-6.5	3,538	-22	-0.6
Highland	5.6	5.1	2,248	2,010	238	11.8	2,227	21	0.9	2,116	132	6.2
Lothian	4.6	4.3	7,784	7,056	728	10.3	8,325	-541	-6.5	8,091	-307	-3.8
Strathclyde	6.2	5.8	27,556	27,407	149	0.5	32,217	-4661	-14.5	28,444	-888	-3.1
Tayside	5.6	5.2	4,365	4,169	196	4.7	4,980	-615	-12.3	4,647	-282	-6.1
Orkney Islands	4.4	3.6	143	135	8	5.9	116	27	23.3	119	24	20.2
Shetland Islands	2.8	2.6	120	118	2	1.7	123	-3	-2.4	113	7	6.2
Western Isles	8.5	7.4	365	347	18	5.2	383	-18	-4.7	372	-7	-1.9
Scotland	5.5	5.1	55,176	53,068	2,108	4.0	62,356	-7,180	-11.5	56,710	-1534	-2.7
South of England	5.9	5.4	289,758	238,116	51,642	21.7	277,261	12497	4.5	295,220	-5462	-1.9
Midlands & Wales	5.9	5.5	133,692	120,074	13,618	11.3	135,415	-1723	-1.3	140,121	-6429	-4.6
North of England	5.9	5.4	158,749	150,696	8,053	5.3	162,703	-3954	-2.4	167,364	-8615	-5.1
GB	5.9	5.4	637,375	561,954	75,421	13.4	637,735	-360	-0.1	659,415	-22040	-3.3

Source: Department of Employment

TABLE 5: REGISTERED VACANCIES AT JOB CENTRES: BY REGION

	Oct 1992	%	Oct 1991	%	Annual Change		Jul 1992	%	Quarterly Change	
					Total	%			Total	%
Borders	455	2.3	503	2.6	-48	-9.5	489	2.7	-34	-7.0
Central	1,122	5.7	1,011	5.2	111	11.0	932	4.5	290	34.9
Dumfries & Galloway	812	5.1	624	3.2	188	30.1	613	3.3	199	32.5
Fife	950	4.8	929	4.7	21	2.3	776	4.2	174	22.4
Grampian	2,646	13.4	2,559	13.1	87	3.4	2,140	11.6	506	23.6
Highland	1,045	5.3	821	4.2	224	27.3	1,000	5.4	45	4.5
Lothian	1,895	9.6	2,721	13.9	-826	-30.4	2,207	12.0	-312	-14.1
Strathclyde	9,133	46.2	9,148	46.8	-15	-0.2	8,991	48.7	142	1.6
Tayside	1,199	6.1	979	5.0	220	22.5	912	4.9	287	31.5
Orkney Islands	88	0.4	66	0.3	22	33.3	86	0.5	2	2.3
Shetland Islands	325	1.6	143	0.7	182	127.3	310	1.7	15	4.8
Western Isles	107	0.5	55	0.3	52	94.5	92	0.5	15	16.3
Scotland	19,777	100.0	19,559	100.0	218	1.1	18,448	100.0	1,329	7.2

Source: Department of Employment

TABLE 6: UNEMPLOYMENT-VACANCY (U/V) RATIO: BY REGION									
	October 1992			October 1991			October 1990		
	U/V	GB rank*	% GB	U/V	GB rank*	% GB	U/V	GB rank*	% GB
Borders	5.97	63	25.7	5.01	64	27.4	3.77	62	40.3
Central	10.35	58	44.5	10.82	55	59.1	7.55	33	80.7
Dumfries & Galloway	6.80	62	29.3	7.85	60	42.9	6.59	39	70.4
Fife	16.61	44	71.5	15.41	31	84.2	10.92	18	116.7
Grampian	5.02	65	21.6	4.09	65	22.4	2.72	66	29.0
Highland	8.89	61	38.3	9.62	58	52.6	6.25	41	66.7
Lothian	17.80	40	76.6	11.02	52	60.2	8.07	26	86.3
Strathclyde	14.08	51	60.6	13.31	38	72.7	9.67	20	103.4
Tayside	14.01	52	60.2	15.57	30	85.0	8.54	24	91.3
Orkney Islands	5.14	64	22.1	6.38	63	34.8	5.29	52	56.5
Shetland Islands	1.18	66	5.1	2.45	66	13.4	5.23	53	55.8
Western Isles	16.31	45	70.1	28.40	6	155.1	11.31	16	120.9
Scotland	12.13	24.4	52.2	11.27	31.4	61.6	8.02	36.7	85.7
South of England	27.98	34.9	120.3	19.47	32.9	106.4	8.76	35.3	93.6
Midlands & Wales	24.27	27.0	104.4	19.36	23.8	105.8	8.93	21.7	95.4
North of England	23.14	55.9	99.5	19.93	49.0'	108.9	11.22	37.5	119.8
Great Britain	23.25		100.0	18.31		100.0	9.36		100.0

Source: Department of Employment

* average rank

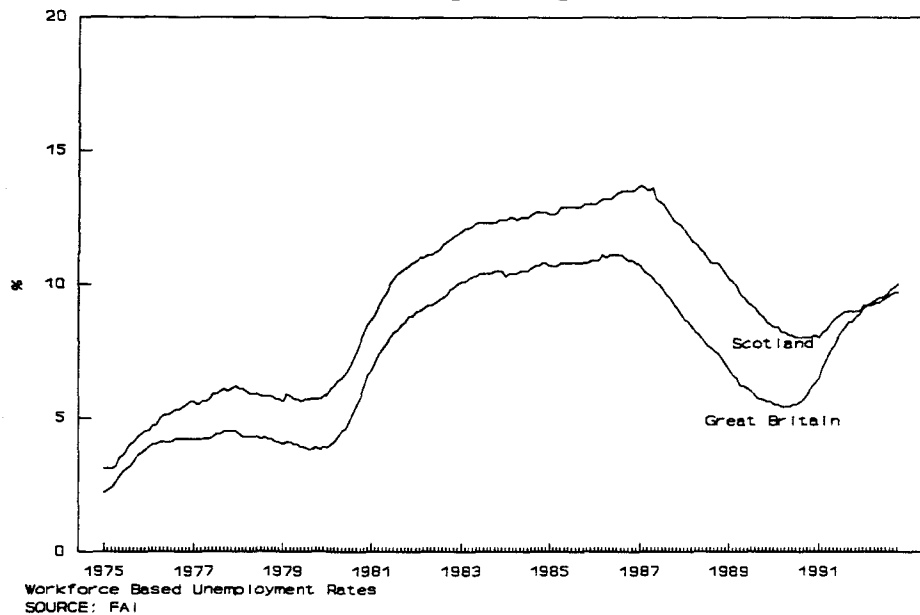
TABLE 7: TTWAs WITH HIGHEST AND LOWEST UNEMPLOYMENT RATES AND RANKS: APRIL 1992 AND APRIL 1991

		Unemployment: Apr 1992			Unemployment: Apr 1991			High-Low		High/Low	
		% rate	GB rank	Sc. rank	% rate	GB rank	Sc. rank	Apr 1992	Apr 1991	Apr 1992	Apr 1991
Borders	H Berwickshire/Peebles	8.4	177	28	8.3	120	24	4.0	4.1	1.9	2.0
	L Galashiels	4.4	313	57	4.2	305	57				
Central	H Alloa	11.4	60	14	11.1	34	11	4.4	4.4	1.6	1.7
	L Stirling	7	246	42	6.7	185	32				
Dumfries & Galloway	H Cumnock & Sanquhar	18.2	1	1	17.6	1	1	11.6	11.8	2.8	3.0
	L Dumfries	6.6	264	49	5.8	237	43				
Fife	H Kirkcaldy	11.7	49	12	10.9	41	13	4.8	5.4	1.7	2.0
	L North East Fife	6.9	250	43	5.5	246	46				
Grampian	H Forres	13.2	22	6	11.5	28	10	9.3	8.5	3.4	3.8
	L Aberdeen	3.9	317	59	3	317	59				
Highland	H Wick	11.8	49	10	11.7	25	8	4.7	6.4	1.7	2.2
	L Inverness	7.1	239	40	5.3	263	50				
Lothian	H Bathgate	11.7	50	11	10.5	52	15	3.9	4.1	1.5	1.6
	L Edinburgh	7.8	211	33	6.4	203	36				
Strathclyde	H Girvan	13.2	21	2	13.5	7	2	7.0	8.4	2.1	2.6
	L Ayr	6.2	275	52	5.1	267	51				
Tayside	H Arbroath	11	78	18	9.7	67	18	5.0	4.9	1.8	2.0
	L Forfar/Crieff	6	280	53	4.8	284	53				

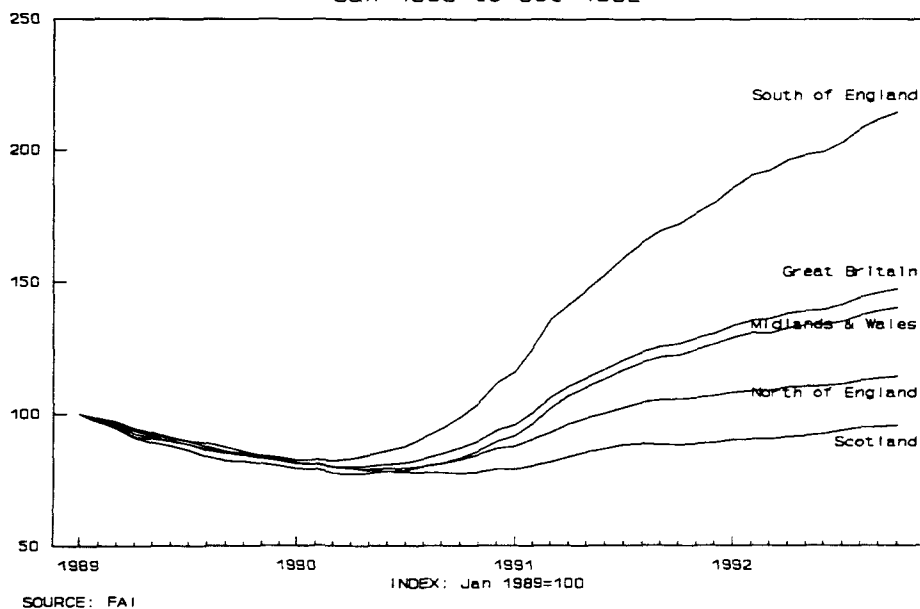
Source: Department of Employment

Note: GB - 322 TTWAs
Scotland - 60 TTWAs

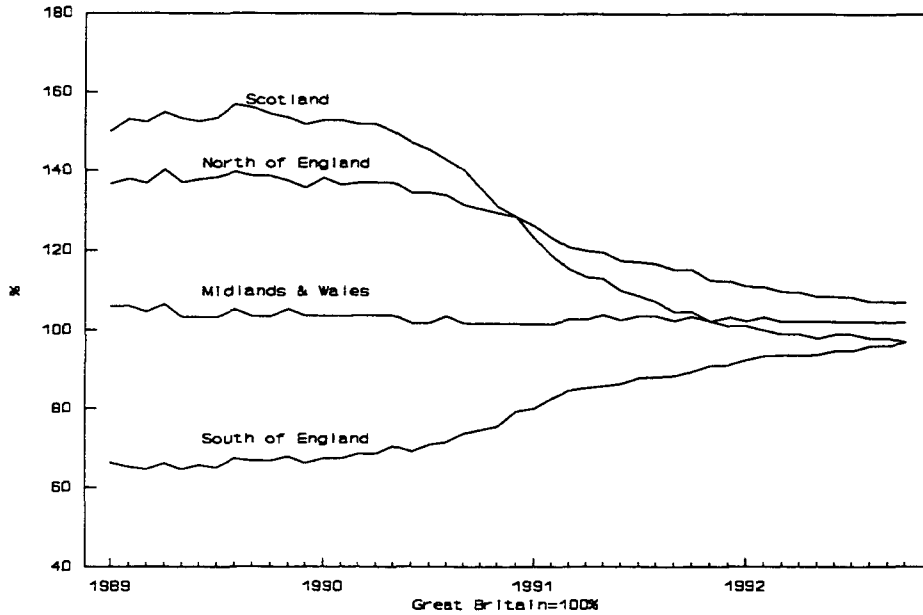
Unemployment Rates in Scotland and Great Britain
1975-1992



British Regional Unemployment Change
Jan 1989 to Oct 1992



Relative Unemployment Rates in GB Regions
Jan 1989 to Oct 1992



Unemployment Vacancy Ratio
1980-1992

