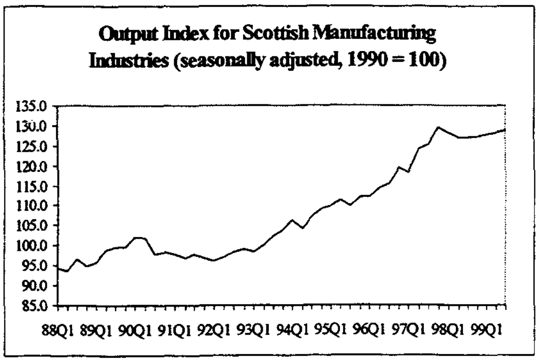
The SCOTTISH *Economy*

SHORT-TERM FORECASTS*

This section presents short-term forecasts for the quarterly growth rates of Scottish manufacturing (Division D of the 1992 SIC) output.



Source: The Scottish Office

The present forecasting period extends to 1999Q3. In making the Scottish forecasts, the past performance of the Scottish and UK manufacturing outputs are considered, and the National Institute's quarterly forecasts for UK manufacturing output are used for driving the Scottish forecasts. Figure 1 depicts the actual growth rates for Scottish manufacturing output from 1988Q1 to 1998Q2 and the forecasts for 1998Q3 to 1999Q3. As is clear from Figure 1, the base year used in the figure is still 1990 although the official output indices have been re-based to 1995 = 100. Hopefully the next forecasting exercise will adopt the new base year when more information and time are available.

It should be mentioned that the National Institute's forecast for UK manufacturing output in the second half of 1998 and the whole 1999 have been revised down again. As a result, the present forecast for Scottish manufacturing output in 1998 has been adjusted further downward compared with the previous forecast. The annual growth rate for Scottish manufacturing output for 1998 is now predicted to be around 2.5%. Further details of the growth rates are presented in the following table.

TABLE 1. QUARTERLY GROWTH OF SCOTTISH MANUFACTURING OUTPUT (%)	
92/91	0.3
93/92	3.6
94/93	5.5
95/94	3.9
96/95	4.1
97/96	7.7
95Q1/94Q4	0.7
95Q2/95Q1	1.3
95Q3/95Q2	-1.2
95Q4/95Q3	2.0
96Q1/95Q4	0.0
96Q2/96Q1	2.0
96Q3/96Q2	1.0
96Q4/96Q3	3.3
97Q1/96Q4	-0.9
97Q2/97Q1	5.2
97Q3/97Q2	0.6
97Q4/97Q3	3.4
98Q1/97Q4	-0.9
98Q2/98Q1	-1.0
FORECASTS	
98Q3/98Q2	0.0
98Q4/98Q3	0.3
99Q1/98Q4	0.4
99Q2/99Q1	0.4
99Q3/99Q2	0.3
98/97	2.5

* 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 DELOITTE & TOUCHE SCOTTISH CHAMBERS' BUSINESS SURVEY

The Deloitte & Touche Scottish Chambers' Business Survey, which is conducted by Strathclyde University's Fraser of Allander Institute together with the Scottish Chambers' of Commerce, is the largest and most comprehensive regular survey of business, employment and other issues affecting the Scottish business community. In the present survey, which was conducted in September, 830 firms responded to the questionnaire.

MANUFACTURING

Optimism

The decline in business confidence was more broadly based, with a net balance of 35% of respondents reporting that they were less optimistic about the general business situation than they were in previous quarter.

Orders & Sales

Total orders and sales continued to deteriorate (net balances of -23% and -20%, respectively), and again the outturn in orders was less than had been expected.

For a further quarter orders and sales to the domestic Scottish market fell and were below expectations. Demand from rest of UK markets continued to fall and by a greater amount than anticipated in the previous quarter.

The difficult conditions in export markets were again evident with demand contracting as net balances of 20% and 23% of respondents reported a decline, respectively, in orders and sales. For a further quarter the deterioration was worse than expected.

Concerns about demand heightened, being reported by 64% of respondents, and levels of demand remained the most important factor thought likely to limit output. Once again concerns about exchange rates remained the second most important constraint on output, with levels of competition the third most significant factor.

Finance

The cashflow position of firms deteriorated with a net balance of 8% reporting a decrease.

Turnover is expected to rise over the next twelve months, but at the lowest rates recorded. A net balance of firms expect profitability to fall over the next year.

Pressures to raise prices appear to have increased slightly. However, a net balance of 0% expect to increase prices (the same percentages expect output prices to rise or to fall over the next three months).

Investment

Changes in investment plans affected less than 35% of respondents. Investment authorised in the third quarter was again primarily orientated towards reducing labour (51%), with replacement (44%) and efficiency enhancement (24%) the next most important reasons. Only 16% of respondents cited capacity expansion as a reason for investment.

Investment intentions fell marginally for plant/equipment and for land/buildings.

Employment

The anticipated level trend in employment did not occur, and employment fell for a net of 1% of respondents, although for a further quarter changes in employment levels affected less than 50% of respondents. A falling trend in employment is forecast for the fourth quarter. More than 55% sought to recruit staff in the third quarter. 35% reported increasing pay by an average of 4.10%, compared to an average increase of 4.32% in the previous quarter.

CONSTRUCTION

Optimism

For a further quarter changes in business confidence were modest, although 9% of respondents reported a decrease.

Orders and Sales

Against expectations total orders rose with a net balance of 1% of respondents reporting an increase. The rate of decline in Central Government orders steepened slightly, whilst the decline eased with respect to other public sector orders.

Unexpectedly, the upward trend in private sector orders re-emerged as a net of 20% reported increased levels of orders. Respondents remain uncertain of any increase in private sector orders in the fourth quarter.

Investment

Investment intentions for plant/equipment were weaker than anticipated. Of those investing, 63% of respondents reported that the main reason for investment was to replace existing capacity, and 12% cited increasing efficiency.

The percentage reporting that the investment was necessary to expand capacity rose slightly from 15% in the second quarter to 16% in the present survey.

Employment

Changes to employment levels affected 47%, and the trends were better than anticipated. Slightly more than 60% reported increasing pay by an average of 6.5% (compared to an average of 4.4% in quarter two). 49% reported seeking to recruit, problems were again evident in the recruitment of suitable skilled manual staffs.

WHOLESALE DISTRIBUTION

Optimism

Changes in business confidence were more broadly based and a decline in confidence was reported by 53%, leading to a net decline of 45%.

Sales

Respondents had forecast an increase in sales for the third quarter, however, the trends were again weaker than anticipated, with 28% reporting rising and 48% falling sales (a net decline of 20%, compared to a net rise of 5% in quarter two). Respondents expect a further deterioration in sales in the fourth quarter. Concerns as to competition were cited by 57% as the factor thought most likely to limit activity in the fourth quarter, whilst 48% cited interest rates.

Investment

Changes to investment plans continued to affect less than 40%, nevertheless, the rise in investment plans ended.

Finance

Cashflow trends remained weak, although changes were more at the margin, with 27.9% reporting lower cashflow and 11.6% rising cashflow trends. Respondents no longer expect turnover to improve over the next twelve months, and a net balance of 9% expect turnover to fall in the next year. Expectations of a decline in profitability over the next twelve months were more widespread, a net decline of 23%. In contrast, expectations of price increases in the fourth quarter slightly strengthened, a net of 16%. Overall cost pressures increased slightly, with other overheads and transport costs reported as the main pressures on prices.

Employment

Changes to employment levels were reported by 40% of respondents, and the trends were weaker than had been anticipated. The percentage seeking to recruit staff fell to 48% and 21% reported increasing pay by an average of 3.48% (compared to an average of 3.88% in the previous quarter).

RETAIL

Optimism

Changes in business confidence affected 55%, and the decline in confidence continued and steepened as net of 39% reported being less confident than at the end of the second quarter.

Sales

For a further quarter the trends in sales were markedly worse than anticipated, and a net of respondents expect the current decline in sales to continue through the fourth quarter. Changes in the level of sales were again widespread with a net of 22% reporting a fall in sales. Interest rates, competition and business rates were identified as the three factors most likely to restrict activity.

Finance

For a further quarter the deterioration in cashflow trends continued with a net balance of 18% reporting a decrease. Both turnover and profitability are expected to decrease over the next twelve months (net declines of 3% and 16% respectively), suggesting increasing pressure on margins.

Investment

Investment plans continued to affect 40%, nevertheless, the rising trends ended and a net of 1% reported revising downwards investment intentions.

Employment

Once again employment trends were worse than anticipated, although changes affected less than a third. 22% increased pay by an average of 4.25% (compared to an average increase of 4.46% in the previous quarter).

FINANCE

Personal advances

Personal advances continued to advance strongly with a net of 37% reporting an increased trend in the level of advances.

Corporate advances

The rate of increase eased slightly in the third quarter, and again corporate demand for credit was most evident for working capital, the rising demand for credit for plant/equipment ended as a net of 11% reported reduced demand.

Sectoral demand

Demand for credit rose from manufacturing, tourism and construction, and demand is expected to rise from these sectors in the fourth quarter.

Employment

Changes to employment levels affected less than 30%, once again the declining trends in full time employment were offset by the increased employment of part-time, temporary and agency staffs. 37% reported increasing pay by an average of 4.5% (compared to an average increase of 4.22% in the previous quarter).

TOURISM

Optimism

Changes in business confidence were more widely reported, and confidence fell sharply to a net decline of 32%.

Demand

Once again the trend in total demand was weaker than a year ago and, against expectations, a net of 32% reported a decline in total demand. The declines in Scottish and overseas demand were steeper than had been anticipated (nets of 27% and 38% respectively), and unexpectedly rest of UK and business demand declined for a net of respondents. Nevertheless, average capacity used averaged 79%, the same percentage as in the third quarter of 1997.

Finance

Turnover fell and costs rose more modestly than anticipated, and, for a further quarter, a lower percentage than anticipated increased prices. A net balance of firms expect to reduce prices in the fourth quarter.

Investment

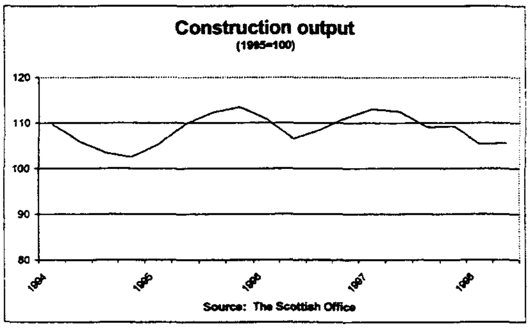
Investment continued to rise, although for more than 70% the main reasons for authorising investment were to replace/renew facilities or to improve existing facilities.

Employment

Changes to employment levels affected slightly more than a third of respondents and a level trend in employment was reported. Recruitment activity remained high with 89% seeking staff. 28% reported increasing pay by an average of 5.0% (compared to 3.5% in the previous quarter).

CONSTRUCTION

In the latest Scottish Office Index of Construction for the second quarter of 1998 the index rose from 105.4 in quarter one to 105.6 (1995=100).



Evidence from the latest Deloitte & Touche Scottish Chambers' Business Survey for the third quarter of 1998 showed that for a further quarter changes in business confidence were modest, although 9% of respondents reported a decrease.

Against expectations, total orders rose with a net balance of 1% of respondents reporting an increase. The rate of decline in Central Government orders steepened slightly, whilst the decline eased with respect to other public sector orders. Unexpectedly, the upward trend in private sector orders re-emerged as a net of 20% reported increased levels of orders. Respondents remain uncertain of any increase in private sector orders in the fourth quarter. Investment intentions for plant and equipment were weaker than anticipated.

Of those investing, 63% of respondents reported that the main reason for investment was to replace existing capacity, and 12% cited increasing efficiency. The percentage reporting that the investment was necessary to expand capacity rose slightly from 15% in the second quarter to 16% in the present survey.

Changes to employment levels affected 47%, and the trends were better than anticipated. Slightly more than 60% reported increasing pay by an average of 6.5% (compared to an average of 4.4% in quarter two). 49% reported seeking to recruit; problems were again evident in the recruitment of suitable skilled manual staffs.

Construction summary results

	Percentages		
	Up	**Level**	**Down**
Optimism	16.4	58.2	25.4
Trends in actual orders			
Total orders	32.8	35.8	31.3
Central Govt orders	2.5	45.0	52.5
Other Public sector	12.0	48.0	40.0
Private sector orders	36.9	46.2	16.9
Capacity used	85.8		
Limits to activity			
Orders/sales	77.3		
Skilled labour	18.2		
Other labour	0		
Raw materials	0		
Credit etc	4.5		
Investment in	15.2	62.1	22.7
Employment trends			
Total actual	23.9	62.7	13.4
Expected next 3	7.5	71.6	20.9
Average pay increase	6.5		
Percent recruiting staff	49.3		
Recruitment difficulties	63.6	36.4	

The Royal Chartered Institution of Chartered Surveyors reported, in its third quarter survey, that activity in the construction industry is slowing after nine successive quarters of strong growth. The Survey is regarded as an early indicator of construction trends because it gauges the workload of chartered surveyors who provide economic analysis of new projects. The gloomy forecasts from the survey contrast with its view earlier in the year when the main concern was a shortage of skilled labour caused by buoyant demand in house building, leisure and retail.

The Construction Federation also conducted a survey of their members and reported that construction companies are increasingly pessimistic about their prospects. During the third quarter inquiries from clients planning to build fell for the first time since 1996. Although optimism fell to its lowest level for almost two years turnover is nevertheless expected to rise.

The Halifax House Price Index for the third quarter of 1998 showed house prices in Scotland rising by 1.8% compared to 1.2% in the UK. Annually the rise in the UK was 5.6% whereas in Scotland it was 3.4%. Company news includes a joint finance deal worth £25 million for Morrison Developments, a part of Edinburgh based Morrison Construction. The deal is for a factory retail outlet in Tillicoultry. House-builders, Bett Brothers, reported a rise of 41% in pre-tax profits to £5.4 million.

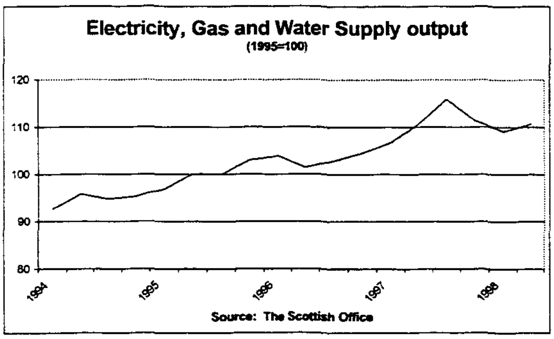
ENERGY

COAL

The Scottish coal industry received another boost in November when the planned electricity interconnector was given the go-ahead by the industry regulator. Scottish Power (SP) is forecasting several million pounds of extra profit from electricity sales to Northern Ireland and the Republic of Ireland. The agreement allows for half of the 250MW capacity to be set aside for sales to Northern Ireland Electricity (NIE) for nearly six years. The other half of the line will be open to two-way traffic and other users. The extra electricity will come from coal fired stations and will boost the demand for Scottish coal from Longannet colliery. The principle beneficiary will be Mining Scotland who have recently secured long-term deals with both SP and Hydro-Electric (HE). The interconnector is expected to be up and running by 2001.

OIL AND GAS

The data from the Royal Bank of Scotland (RBS)/BBC Radio Scotland Oil Index indicates that production was relatively static for both Q3 1998 on Q2 1998 and for Q3 1998 on Q3 1997. The Gas Index shows that for Q3 1998 on Q2 1998 there was an 18.5% reduction in gas production but only a 4% drop over the year. The Combined Oil & Gas Index declined by 6.5% for Q3 1998 on Q2 1998 but only decreased by 1.6% on an annual basis.



The oil price dropped to its lowest level in August 1998 in real terms since the RBS first published their index in 1983. The price was on average just above $12 during June-August but in September moved up to $13.28 a barrel. The low oil price has been the major factor in declining production and revenues. For Q3 1998 on Q2 1998 the oil price fell by 6.7% but on an annual basis has declined by 32.4%. The main reasons behind this are high stocks around the world, the global economic slowdown reducing demand for oil, a seasonal dip in production, the specific problems of the Far East and Russia and the lack of constraint on production as OPEC countries continue to produce beyond their quotas.

The Average Daily Oil Value (£ million) has fallen by 33.6% over the year but only 6.5% for Q3 1998 on Q2 1998. The Total Daily Value (£ million) fell by 25.7% on an annual basis but for Q3 1998 on the preceding quarter the decline in revenues was only 11.3%. Despite the collapse in the oil price and uncertainty over the taxation review the UK industry has remained in a robust state with very few projects cancelled or abandoned.

It may be that production is being kept up to generate cash to cover costs. If this is true then the cost reduction initiatives will become more pressing and the longer-term outlook for the North Sea could be less promising than previously thought. The most obvious source of cost cutting is labour costs. Unless the oil price rises, which it has shown signs of during September, then the UK oil industry may be facing a severe shakeout. This is not the doomsday scenario predicted by some commentators who always see the end of activity in the North Sea round the next corner but a very realistic outcome if conditions do not improve. The response is more likely to be that the oil majors would seriously re-consider their exploration and production activities in what is a mature high-cost area and they may possibly sell off their more marginal and mature fields to smaller operators who specialise in this type of work. As this form of production relies more on new technology and automation then both the numbers of exploration and production staff could be reduced significantly with the consequent knock-on effects on onshore employment. This is not a certain outcome but declining revenues in a global and dynamic industry where price dictates activity must cause concern for all involved in the industry.

Given the economic slowdown it is unlikely that there is much scope for the price to rise beyond $15 (the forecasts in the *National Institute Economic Review*, (1998), 4, October, No. 166 are optimistic at the $15-16 mark for the next three years) and production activity will pick up but cost reduction initiatives will still be important. Factors including the coming winter weather, OPEC output, the global economic situation in 1999 and Iraqi exports (or lack of them) will all be important influences on price.

Around 20 of the oil industry's senior executives met in Venice for two days fundamentally reviewing the oil industry at a time when the collapse in the oil price has brought about a crisis situation. The BP/Amoco deal has set the stage for industry consolidation. The benefits of merger here are the reduction in cost base. This is a priority in the industry across the board and those companies who are involved in this already have a head start. Further as investor funds are decreasing, those companies with lower cost bases will be more attractive to the limited resources available. BP Amoco is preparing to launch the largest ever issue of American depository receipts, worth $60 billion (£35 billion) on the New York Stock Exchange. This would top the issue of Royal Dutch/Shell and Unilever with $26 billion and $13 billion respectively.

Exxon have agreed to take-over Mobil for $75 billion (£45 billion) making Exxon Mobil the world's largest oil company in revenue terms ($182.4 billion). This places it ahead of Royal Dutch/Shell ($128.1 billion) and BP Amoco ($104 billion). The new company has a market capitalisation of $240 billion compared with $160 billion for Royal Dutch/Shell, previously was the industry leader. The combined company hopes to achieve cost savings of $2.8 billion in the short term with 9-14,000 job losses out of a total employment of 123,000.

Total have also agreed to buy Petrofina of Belgium for $13 billion (36% premium on share price) creating the world's sixth largest oil company and Europe's third largest with a market capitalisation of $40 billion. The French company's shares slid by 12.3% suggesting that Total has overvalued Petrofina. In terms of 1997 oil revenues Total Fina is now fourth with $46.6 billion and total employment is 69,000. Annual sales are $54 billion with oil reserves of 5.7 billion barrels.

The future of the industry is that there will be more strategic alliances and possibly more consolidation. The BP Amoco deal was welcomed by investors, as there were clear cost savings that were visible from an early stage. The Total Petrofina merger has a number of problems. The key to mergers with positive benefits is to have a willing junior partner (e.g. Amoco, Mobil). For Texaco, Chevron, Elf and Atlantic Richfield the dilemma is greater – Texaco withdrew from discussions with Royal Dutch/Shell (who are still following a policy of strategic alliances based on products or geography) – there are definite benefits of being an early mover.

Gordon Brown has scrapped the review of offshore oil taxation amidst the present climate of a low oil price and a concentrated effort to reduce costs, ending 14 months of uncertainty. Contractors associations had warned of 50-60,000 job losses if taxation had been increased. The low oil price has also hit Enterprise's debt rating as Moodys plan to downgrade them. The reason given are that net debt will rise sharply to £589 million from £448 million last year. With lower earnings this makes the situation more delicate. The outlook for 1999 is that debt will rise further due to committed expenditure despite efforts to cut back costs. Enterprise has most of its oil reserves in the North Sea, the Gulf and Italy.

OPEC income is expected to fall back to 1970s levels as oil export income declined from $149 billion by 32% to $101 billion, the lowest ever before the crisis of the 1970s. The OPEC basket of oil sold for $12.37 a barrel in the first six months of 1998 compared to $191.30 last year. Industry oil prices are to rise during the year 2000 as demand rises and expected profits are forecast to be higher.

Germany is to receive a new regular flow of North Sea gas from the UK. BP will export 1 billion cubic metres a day to Germany's Rhurgas adding to deliveries from Netherlands, Norway, Denmark and Russia in order to bridge the gap between demand and supply. Industry analysts also expect that the interconnector will lead to the convergence of prices in the UK and in Europe. Half of the total capacity of 20 billion cubic metres has been taken up by other deals.

UTILITIES

The Scottish Office Index of Production indicates that for Electricity, Gas & Water Supply growth was 1.4% in Scotland compared to 5% in the UK for Q2 1998 on Q1 1998. This is evidence of this sector slowing down in line with the UK economy's general slowdown, an abrupt reversal of the usual position of Scotland relative to the UK. This is evidence of this sector slowing down in line with the UK economy's general slowdown. For the latest four quarters on the preceding four quarters growth is 5.2% in Scotland but only 1.3% in the UK. This reflects Scotland's exports of electricity to the rest of the UK during a period of relatively strong economic growth.

Scottish Power (SP) now supplies a utility service to one fifth of British homes. The company has been gaining customers prior to November at the rate of 12,000 per week. The cost of winning each customer is £35 and it takes 18 months to recoup that investment. This has constrained pre-tax profits to £247million for the six months to September. The company has stated, 'it had gained 500,000 gas customers and 80,000 customers since markets were liberalised. Customer losses have been 400-500 per week.' SP has a market share target of 7% of gas customers by the year 2000 but has cut its electricity target from 15% (worth £2.5 billion) to 13% (worth £2.2 billion). Currently SP has a market share of 11% in the electricity market. Turnover has increased by 5.4% to £1.45 billion while the interim dividend has risen from 6.8p to 7.5p. SP is currently valued at £6.7 billion.

Hydro is to try to enter the US market to acquire Hydro generating plants following the merger with Southern Electric. The priority will remain to build up the customer base in the UK but the deregulation in the US market presents unrivalled opportunities. The company is also to bid for nearly £100 million worth of Yorkshire Electricity's assets including the 240MW gas-fired power station at Brigg. Yorkshire was sold last year to a US group for £1.5 billion. but they are looking to focus on distribution rather than generation.

BNFL has won the backing of Donald Dewar, the Secretary of State for Scotland after voicing concerns over the future of Chaplecross. At the moment sells £35 million worth of electricity down the interconnector and pays SP £1 million in access charges last year. Under the temporary agreement BNFL pays SP £3-4 million. SP wishes to restrict access to the interconnector to its own generators only. BNFL are concerned that this loss of output will put at risk 400 jobs at the plant. Wholesale electricity is cheaper in Scotland than it is in England & Wales. The obvious solution to this problem is not to allow generators to own such links and that control of the interconnector should lie with the National Grid.

SP has announced a £4 billion take-over of Pacificorp, the Oregon based US utilities company. This is their fourth attempt to break into the US market making SP the first UK utility company to purchase a US utility outright.

British Energy (BE) is competing against Electricitié de France in its bid to buy London Electricity; both bids are around £2 billion. Entenergy (a US group) bought London Electricity for £1.3 billion in 1996. BE is also attempting to acquire more coal fired power stations in the UK and more nuclear power stations in the US. BE's pre-tax profits fell from £114 million to £97 million for the first six months to September. Profits before exceptional operating credits increased from £4 million to £46 million, news that saw the share price rise by 37p to 620p.

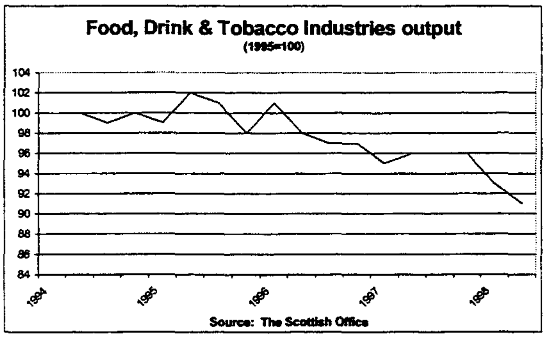
During mid-December 5.5 million domestic electricity customers will have the choice of supplier extended to them. Eastern Electricity, London Electricity, Manweb, Scottish Power and Yorkshire Electricity cover the areas where competition will be introduced. Offer estimates that more than 1 million customers have signed up to different suppliers as opposed to their incumbent supplier. Average savings of 12-14% (£35-40 off an annual average bill of £275) are available due to competition. All 24 million domestic consumers and 2 million small businesses will be able to choose their supplier by the end of June 1999. Centrica claims to have signed up 500,000 domestic electricity customers.

OFWAT's proposals for price cuts of 15-20% could cost SP £80 million at Southern Water. It is estimated that this could produce savings of £50 on annual domestic bills. Southern Water would have cut charges by 17.5% to meet OFWAT's demand.

MANUFACTURING

Food, Drink and Tobacco

The Index of Production for the Food, Drink and Tobacco (FDT) sector in Scotland stood at 91 in the second quarter of 1998 (1995 = 100), down by 1.8% from the previous quarter and by 2.4% over the year. Sectoral performance thus compares unfavourably with the rest of the manufacturing sector with, for example, the figure for All Manufacturing in Scotland falling by only 1% in the second quarter and actually increasing by 4.6% over the year. It is fair to say, however, that the yearly increase across manufacturing is influenced by a good performance in some sectors - chemicals and man-made fibre production rose, for example, by 11% over the year and electronics by 13.8%. Nonetheless, the recent performance of the sector is undoubtedly disappointing. While output was steady throughout much of last year, it has fallen in both quarters in 1998.



The more recent (third quarter) results from the Deloitte & Touche Scottish Chambers' Business Survey show, however, that the picture may at least be steadying. It is true that more firms feel less optimistic (31.8%) than at the comparable time in 1997 (22.7%). Also, a net number of respondents do report falling orders in the three months preceding the survey. However, the actual figure is fairly small at only 2.3%, and over one-third (35.7%) report no change in the trend in orders. Additionally, there is a suggestion of some slight improvement in that a net 9.5% expect new orders to increase in the coming period. Capacity utilisation at 75.2% is also slightly up on last year for a small net (2.3%) of firms, while 20.9% had revised investment intentions upwards during the survey period compared with 14% who had revised them downwards. Employment intentions had also been revised upwards for a net 9.1% of companies.

News in the company sector includes the milk producer Wiseman's announcement that they have further delayed plans for their expansion into England. Wiseman had planned to open a £32 million dairy in Birmingham, but have put the plan on hold until they secure further long-term contracts to underwrite the investment. Wiseman have also announced a 5% increase in first half profits, despite turnover falling from £125 million to £118 million.

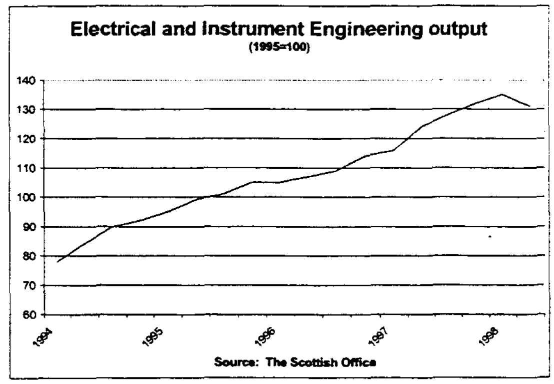
A recent report on the whisky industry by Datamonitor suggested that whisky's share of the UK drinks market had fallen from 40.7% in 1993 to 33.7% in 1997, largely due to a lack of marketing compared to other drinks. This had hit sales particularly amongst younger people, with, for example, a fall in whisky consumption of 13% for those between 19-24. However, recent results from two companies suggest that they have been able to buck this trend mainly because of a good performance in overseas markets. Highland Distillers managed to keep profits static at £43 million in the first half of this year despite the level of both interest rates and sterling. While volumes did fall by 3% in the UK, volume growth in Europe-sales were up by 56% in Spain, 35% in Holland and 24% in Greece - allowing the company to keep profit levels even, in the face of a reduction in sales to the Far-East. Allied Domecq actually managed to increase profits and sales - European sales rose by 25% and sales to America rose by 5%.

ELECTRONICS

The latest Scottish Office news release (November 1998) indicates that the Index of Production for the Electrical and Electronic Engineering (EEE) sector in Scotland fell by 3 percentage points in the second quarter of 1998. The quarterly fall in output, the first recorded quarterly downturn in this sector since the third quarter of 1990, is not wholly unexpected, given the difficulties affecting this industry (see company sector below). However, it is nonetheless significant, as output growth by this sector has underpinned much of the recent growth of the Scottish manufacturing sector. Not surprisingly, Scottish manufacturing output fell over the same period by 1 per cent. Year on year growth for this sector to the second quarter of 1998 remained strong at 14%. UK output for the EEE sector increased by less than 1% over the same quarter and year on year growth remained positive at 3%. An indication of whether this quarterly downturn in output growth, for the Scottish EEE sector is likely to continue, can be gauged by the results from the most recent Deloitte & Touche Scottish Chambers' Business Survey.

The third quarter survey reveals a substantial fall in the general level of business confidence, recorded by respondents, over both the last quarter and compared with the same period one year previous. The changing trends in new sales and orders indicate that, excluding seasonal factors, the trends in both new orders and sales, across all markets, were down over the last quarter with a similar outlook anticipated for the forthcoming quarter. Overall, firms expect the downturn in demand, realised for the third quarter of 1998, to continue in the final quarter.

The average capacity utilisation for respondents in this sector fell slightly to 76%, which a net 20% of respondents regarded as being lower than one year previous. Investment intentions for both plant/equipment and land/buildings were revised downward for a small net balance of respondents. This trend in investment intentions is forecast to continue into the forthcoming quarter. Total employment changes affected 46% of respondents over the previous quarter with 30% increasing employment against 16% who reported a fall in employment levels. Employment is forecast to fall for a small net balance of respondents in the fourth quarter of 1998.



The general business outlook in this sector has certainly worsened. Respondents in the previous two Quarterly Commentary's noted increasingly difficult trading conditions, with the recorded fall in output growth for the second quarter of 1998 not unexpected. However, the need to reduce prices coupled with the continued downturn in the level of orders and sales indicates that the present business outlook, if anything, has deteriorated. Although it is difficult to anticipate the impact of these concerns on future output growth, clearly trading conditions are difficult in this sector with future output growth, if positive, likely to be much reduced from the growth rates previously enjoyed by this sector.

In the Company sector, the previous year has proved difficult for the Scottish Electronics Industry, which employs nearly 60,000. With the Asian financial crisis and over-capacity in semi-conductor production, coupled with falling prices and demand, companies throughout this industry have had to review their operating strategies in order to remain competitive.

As a consequence, the electronics industry in Scotland has suffered with over 3 thousand (direct) jobs lost or announced over the past year. The job losses include the closure of the Viasystems plant in the Borders with a loss of 1,000 jobs. The Mitsubishi Electric (Melco) television plant at Haddington, with 500 job losses. National Semi-Conductors (based in Greenock for 29 years), a further 600 jobs with a possible 400 more if they cannot find a buyer for the plant. The take-over of Digital by Compaq and subsequent restructuring of operations in Scotland adds another 500 jobs. Lite-On (North Lanarkshire) reduced its workforce by 150 after it closed one of its production lines. Motorola, based in East Kilbride, announced 200 job losses following recent restructuring at the plant. Seagate, the US-owned plant, based at Livingstone, served redundancy notices for 270 workers after failing to find a buyer for the plant.

The above job losses (not a complete list) provide an indication of the range of companies affected by the current re-structuring of this industry in Scotland. These job losses reflect only the direct impact. If we consider the knock-on effects to suppliers in Scotland and the reduction in household income and consumption, the total number of jobs lost to the Scottish economy is likely to be around double this total.

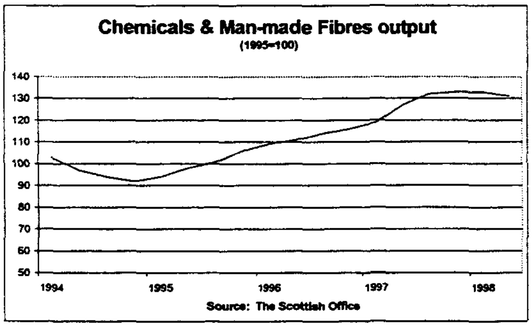
However, over the same period Scotland has continued to attract new companies. The most significant of these investments is the location of a new microchip design centre at Livingstone. The £200m investment by Cadence Design Systems will develop the world's first system level integration institute creating up to 1,895 highly skilled jobs over the next seven years. The research and development (R&D) operation will train high-tech engineering students to design microchips. This type of investment brings an additional element to the Scottish Electronics Industry. Moreover, these types of jobs are less vulnerable to changes in industry tastes or cyclical downturns and are important for the future of the industry in Scotland.

Finally, there may be more job losses in this sector before this period of industry consolidation is over. For instance, Philips, the Dutch electronic mult-national is expected to shed one third of its factories worldwide over the next four years. Philips employs around 7,400 in the UK, including 600 at its Hamilton plant.

CHEMICALS

The Index of Production for Scotland for the second quarter of 1998 showed a fall in output of 1.4% for the Chemicals and Man-made Fibre sector over the quarter but an increase of 11% for the latest four quarters on the preceding four quarters. For the UK as a whole there was an increase of 1.1% for Q2 1998 on Q1 1998 while for the latest four quarters on the preceding four quarters the increase was 1.4%.

Results from the latest Deloitte & Touche Scottish Chambers' Business Survey showed a fall in confidence among respondents. Changes in confidence were reported by more than 90% of respondents and the fall in optimism accelerated with only 17% reporting being more confident while three quarters were less confident.



The decline in total orders, a feature since the third quarter of 1997, steepened to a net of –60%. Changes in the level of Scottish orders affected 80% and the decline accelerated to a net of –80%. A net of 38% reported declining rest of UK orders and the trend in export orders deteriorated. Changes in the level of sales affected 90% and the sharp decline was evident with 70% reporting falling and only 20% rising sales. Rest of UK and export sales fell steeply. During the current quarter respondents expect the decline in demand to continue although the rate of decline is expected to ease.

Average capacity used fell eleven percentage points to 64%. Lack of demand was reported by 67% as more of a concern than three months ago while 42% cited exchange rates.
Cashflow trends weakened further with 50% reporting weakening and only 8% improved cashflow trends. Fifty-eight percent now expect turnover to rise over the next year and on balance respondents (compared to a net increase of 27% in quarter one) expect profitability to remain level over the next year. Little change to prices are anticipated. Sharp increases in raw material costs and pressures from pay settlements were reported in the third quarter.

Changes to investment plans again affected a third and the declining trend in investment in plant/equipment continued. Investment authorised in the third quarter was for reducing labour (62%) and replacement (38%).

Changes to employment again affected less than 40% and 27% reported increasing employment. This increase is not forecast to continue through the fourth quarter as only 9% expect to increase employment while 27% anticipate reducing employment.

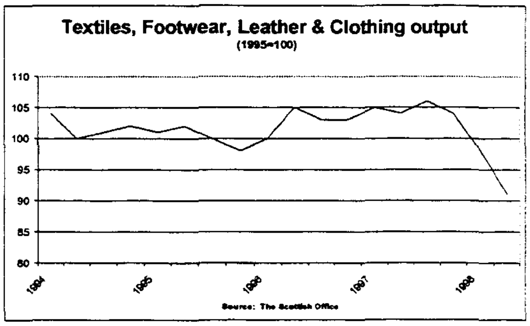
BP recently announced a massive expansion at its Grangemouth petrochemical complex that could create more than 1000 construction jobs as well as hundreds of permanent posts. It is part of a £500 million project to upgrade the competitiveness of its petrochemical manufacturing in the UK. Projects include building power plants for the site, an ethanol plant and another ethylene cracker. This follows its take-over of the United States oil company, Amoco, in a deal that created Britain's largest company.

Zeneca is to shed up to 700 workers at Grangemouth as it divests its Zeneca Specialities business and focuses attention on pharmaceuticals and agro-chemicals. Zeneca maintains that hiving off in this way should preserve or even create more employment by offering the specialities business additional growth opportunities in the speciality chemicals sector.

Scotia Pharmaceuticals, the Stirling based drugs company, has signed a development agreement with Swiss manufacturer Hoffman-La Roche to reformulate one of its flagship drugs. The name of the drug has been kept confidential. The news followed interim results, which showed that Scotia had narrowed pre-tax losses for the six months ended 30 June to £11.1 million compared to £12.8million last year. Turnover rose slightly, from £10.1 million to £10.2 million.

TEXTILES, FOOTWEAR, LEATHER AND CLOTHING

The Index of Production for the Textiles, Footwear, Leather and Clothing (TFLC) sector in Scotland stood at 91 in the second quarter of 1998 (1995 = 100), a drop of 6.3% from the previous quarter and of 3.8% over the year. To put this into perspective, the comparable fall for all manufacturing in Scotland measured only 1% in the second quarter and actually rose by 4.6% over the year. It is fair to say, however, that the yearly increase across manufacturing is influenced by a good performance in some sectors - chemicals and man-made fibre production rose, for example, by 11% over the year and electronics by 13.8%. Other sectors have performed worse than TFLC, with Food and Drink falling by 5.1%. Nonetheless, the recent performance of the sector has undoubtedly been disappointing, and output has now fallen for three successive quarters.



The more recent (third quarter) results from the Deloitte & Touche Scottish Chambers' Business Survey provide few grounds to suspect that the situation will improve in the short-term. While a large proportion (45.4%) of respondents reported no change in optimism compared with three months previously, most (51.8%) felt less optimistic and, most tellingly, only 2.6% of respondents actually reported a greater degree of optimism. The reasons for this are fairly evident, with a net 60% of firms reporting falling orders during the survey period. The expected trend is slightly healthier, although it is still the case that a net 47.6% of firms expect orders to fall in the coming three months. The largest current and prospective reductions in orders were in export markets, with 58% reporting that these had fallen in the three months prior to the second quarter and 64.7% expecting them to fall further in the next quarter. Expected Scottish and UK orders were also down, but by around 20 points less than the figures for exports. Reflecting the current state of the sector, capacity utilisation at an average of 70.3% is down on last year for just under a quarter of respondents and investment intentions are low, with a net 29.9% of respondents revising these downward from the previous quarter. The trend in total employment also fell, with 43.7% reporting that this had fallen.

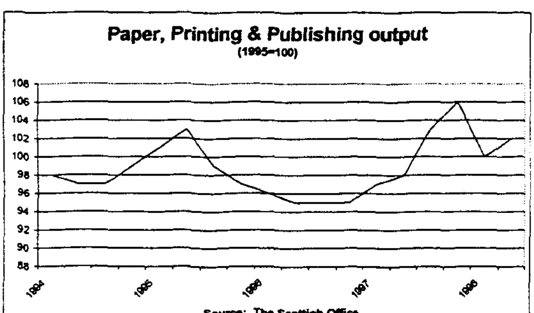
Reasons for the above picture are not hard to find. While 82.1% of firms cited the level of orders and sales as their main current concern, this was closely followed by concern over the exchange rate (69.5%) and over interest rates (48%). This is hardly surprising in an export-intensive industry such as textiles.

The company news from Scotland reflects the above picture. Unidoor Manufacturing, which makes football strips announced the closure of its plant in Stranraer with the loss of 180 jobs and is exposited to scale down its Ayrshire operation, losing 80 of the 200 jobs there. Unidoor make strips for Adidas, and the job losses follow from their decision to take strip manufacturing out of the UK because of high costs.

Elsewhere, Dawson International has posted a £23.5 million loss for the first six months, blaming trading conditions which the chairman has said are the most difficult the company had ever experienced

PAPER, PRINTING AND PUBLISHING

The most recent Index of Production for the Paper, Printing and Publishing sector in Scotland reported a 1.5% increase in output for the second quarter of 1998. (Recall that in the first quarter of 1998 this sector experienced a sharp quarterly reduction in output growth of 6%.) Annualised growth for this sector in Scotland also remained positive with an increase of nearly 7% over the previous four quarters. The corresponding UK figures reveal that output growth increased by 0.5% to the second quarter of 1998 and annualised growth increased by nearly 2%.



The results from the most recent Deloitte & Touche Scottish Chambers' Business Survey suggest that trading conditions remain difficult in this sector. Despite the increase in output growth, reported for the second quarter of 1998, the decline in business confidence, noted by respondents in the previous Quarterly Commentary, has steepened for a net 59 per cent of respondents. Moreover, an increasing number of respondents (64%) are less confident about the general business climate than one year previous.

The trends in total orders and sales over the previous quarter confirm this outlook. Declining orders across all markets were reported, with 50% reporting falling Scottish, 42% declining rest of UK and 15% falling export orders. The trend in the total volume of sales followed a similar pattern, with both Scottish (64%) and UK sales (44%) most affected. The trends in orders and sales for the forthcoming quarter are forecast to rise by a positive balance of respondents, although similar expectations to rising demand, noted in the previous two Quarterly Commentary's, never materialised.

The average level of capacity utilisation for the Paper, Printing and Publishing sector increased by nearly 3 per cent to 77% for the third quarter of 1998. Investment intentions in this sector, over the past quarter, were revised downward for both land/buildings and plant/equipment, as anticipated by respondents in the previous Commentary. The expected trend is positive for investment intentions over the forthcoming quarter.

The latest Deloitte & Touche Scottish Chambers' Business Survey also reveals that changes in total employment affected 35% of respondents, as the decline in employment steepened for a net 23% of respondents, over the past quarter. This decline in total employment is forecast to continue into the next quarter. Over the same period, nearly half of all respondents increased wages and salaries by an average 3.5%.

In summary trading conditions remain difficult within this sector with the trends in orders and sales within the industry the key concern for respondents. Actual trends for both orders and sales, over the past three-quarters, have been lower than anticipated by respondents. Moreover, Scottish and UK orders have been worst affected. This may stem, in part, from the difficulties other Scottish and UK production sectors have experienced in export markets (particularly Scottish Whisky & Electronics), for which the Scottish PPP sector (particularly packaging) is an important supplier. The most recent survey reveals that weakening trends in turnover and profitability underlie the declining trend in business confidence.

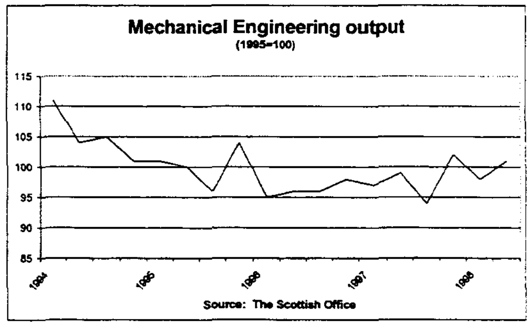
Accordingly, growth will remain difficult for this sector over the forthcoming quarter unless the expected trends in orders and sales are realised.

In the company sector, MacFarlane Group (Clansman), the Glasgow-based packaging company is looking to shed around 200 jobs following a cost-cutting drive aimed at saving £3 million a year. The company has suffered from a fall in orders, particularly from the electronics sector, where demand remains slack. Finally, Sidlaw (the Scottish based flexible packaging group) is hoping to expand into Europe through acquisition. The company is looking to acquire a company based in continental Europe in order to increase its position within the market. Greater consolidation within the large consumer groups has led to consolidation within the packaging sector as these companies aim to deal with only one supplier across a range of markets.

MECHANICAL ENGINEERING

The latest Scottish Office News Release (4 November 1998) recorded a quite significant increase in Scottish mechanical engineering output of 3.7% in the second quarter this year (there seems to be a reporting error here because on the basis of the reported production index the increase is calculated to be 3.1%). In fact, this increase in output is the second largest among all the industries only after Transport Equipment. Such a significant increase is rather surprising because it is completely at odds with the reported falls in the volume of sales to all the markets, the running down of stocks, and the marked deterioration in business confidence among the corresponding firms in the second quarter, as shown in the previous Deloitte & Touche Scottish Chambers' Business Survey (DTSCBS). One possible explanation for such a discrepancy in the previous DTSCBS is that, although a significant number of firms reported falls in sales and stocks in Q2, the small number of firms which increased sales and stocks actually dominated in volume terms.

The latest DTSCBS still showed a subdued level of business confidence. On balance 42.9% of the corresponding firms were less optimistic about the general business situation in the third quarter than that in Q2. Compared with the situation at the same time a year ago, a net 48% of the firms were less optimistic. As in the previous DTSCBS, on balance, sales to all the markets were down in more firms, with the RUK market being the hardest hit. More firms were also running down rather than building up stocks in Q3. As regards the volume of new orders, again a significant number of firms reported falls from all markets. Looking to the final quarter, very few firms expect any improvement in either sales or new orders, and the de-stocking process is expected to continue in a larger net number of firms than in Q3. The average capacity utilisation rate was marginally higher than that in Q2 at 76.8%. Compared with the same period a year ago, the capacity utilisation rate was either the same or lower in 81.6% of the firms.



Despite the expected short-term difficulties, the majority of firms maintained or increased their investment intentions in Q3. However, such intentions seem to be weaker in the last quarter. For those firms that authorised investment in Q3, the main reasons were: reducing labour costs (53.6%), increasing efficiency (39.3%), introducing new technology (35.7%) and replacement (28.6%).

Over the next three months, only a small proportion of firms (20.8%) expect to raise their prices, mainly because of increased costs of other overheads, prices of raw materials and pay settlements. The factors that cause overwhelming concern among the firms are orders or sales, exchange rates and skilled labour, and over a quarter of firms also expressed concern over the interest rate. This fact reveals the strong external orientation of this industry and suggests that any sustained recovery of this industry could only be export-led. Over the longer-term there seemed to be a sharp deterioration in firms' confidence about their turnover and profitability in the next 12 months.

The job market situation in Q3 was hardly changed from that in Q2, with most of the firms maintaining their employment levels in all forms of employment. Over the next three months, however, on balance firms expect the employment situation in this industry to be markedly worse than in Q3.

Compared with Q2, a larger number of firms (37.5%) increased their wages and salaries in Q3. The average percentage increase was 4.4%. More firms are also attempting to recruit staff. The difficulties with employing skilled manual and technical workers were still experienced by a large proportion of firms.

SERVICES

WHOLESALE & RETAIL DISTRIBUTION

The Royal Bank of Scotland Scottish Retailers Index showed that in the three months to September, the seasonally adjusted volume index of sales by Scottish-based non-food retailers stood at 108.5 (1996 Q1 = 100). This was 0.1% below the figure for Q2, but 5.9% up on the weak figure for the same period a year earlier. The Great Britain figures show a 1.2% increase over the quarter and a rise of 3.7% on the year.

The Royal Bank claimed that due to seasonal factors, the third quarter is traditionally strong so far as Scottish non-food retail sales are concerned. On a non-seasonally adjusted basis, the volume index of sales by Scottish-based non-food retailers was 154.3 in Q3 of this year, a rise of 17.6% on the quarter, compared with 3.4% for Great Britain. For Scotland, this represented a rise of 5.8% on Q3 1997. Compared with 1997 Q3, sales volumes in Great Britain were up by 3.5%.

According to the ONS, in October the seasonally adjusted estimate of retail sales volume was 111.7. This is 0.4 % below the September figure but 1.0% higher than the October 1997 level. In August to October the volume of sales was 0.1% higher than in the previous three months and 2.5% higher than in the same period a year earlier.

Evidence from the latest Deloitte & Touche Scottish Chambers' Business Survey shows changes in business confidence among wholesalers more broadly based than previously, with a decline in confidence reported by 53%. Changes in retail business confidence affected 55%, and the decline in confidence continued and steepened as net of 39% reported being less confident than at the end of the second quarter.

Wholesale respondents had forecast an increase in sales for the third quarter, however, the trends were again weaker than anticipated, with 28% reporting rising and 48% falling sales. Respondents expect a further deterioration in sales in the fourth quarter. Concerns as to competition were cited by 57% as the factor thought most likely to limit activity in the fourth quarter, whilst 48% cited interest rates.

For a further quarter the trends in retail sales were markedly worse than anticipated, and a net of respondents expect the current decline in sales to continue through the fourth quarter. Changes in the level of sales were again widespread with a net of 22% reporting a fall in sales. Interest rates, competition and business rates were identified as the three factors most likely to restrict activity.

Retail summary results

	Percentages		
	Up	**Level**	**Down**
Business Optimism	8.2	45.0	46.8
Trends in actual sales	26.8	24.5	48.6
Trends in expected	22.8	38.6	38.6
Cashflow past 3 months	17.3	47.2	35.5
Turnover next 12	30.5	35.9	33.6
Profitability next 12	26.0	32.1	41.9
Price change next 3	33.2	60.0	6.8
Employment trends			
Total actual	13.0	68.8	18.1
Expected next 3 months	7.7	73.9	18.4
Average pay increase	4.25		
Percent recruiting staff	46.8		
Recruitment difficulties	49.5	50.5	

The British Retail Consortium found that retail spending was at a standstill during October. The overall value of sales was 0.6% lower than in the same period of 1997, only the second decline in annual sales for more than three years.

The latest CBI Distributive Trades Survey, covering sales from 5 to 25 November, showed retail sales volumes fell in November and were at their weakest since March 1995. The Survey reported that 'once again retailers' expectations for modest growth were not fulfilled - expectations have been fully realised in only one out of the past 12 months'.

The Survey shows that 36% of retailers reported increased sales volumes compared with the same time a year ago, while 45% said they were down, leaving a negative balance of 9%. Sales growth has registered a negative balance in three of the last four surveys (September was the exception when a positive balance of 14 % was recorded). The three monthly average also shows that underlying sales have flattened out, and are at their slowest since April 1995.

Sudhir Junankar, CBI's Associate Director of Economic Analysis said: "The decline in retail sales in November took retailers by surprise, leading to the largest fall in confidence in the survey's 15 year history. "

Imports as a proportion of retailers' deliveries from suppliers have risen since the last survey and the positive balance of 18% is the highest since May 1990.

The CBI claim that wholesalers' sales volumes fell sharply in November, despite expectations of growth. A further, more marked fall in volumes is expected for December. Business confidence among wholesalers is the lowest in the history of the survey, signified by a negative balance of 34%. The overall business situation is expected to worsen over the next six months.

According to Verdict, a retail consultancy group, retailers face their slowest Christmas in 20 years. The group expects sales in November to rise by just 0.8% to £16.7 billion and by just under 3% to £20.5 billion in December. Verdict's chairman, Richard Hyman, said: "We believe sales will be much worse than retailers expect." He said retailers could be left with around £1.6 billion of unsold stock in the run-up to Christmas. Mr Hyman claimed that retailers ".... will not have anticipated the dramatic weakening of consumer demand since September and they have ordered stock more in keeping with sales growth seen earlier this year. This is the biggest unsold stock figure we have ever seen."

More than 5000 jobs could be created from a plan to build a shopping and leisure complex in East Kilbride, around 2000 of these will be permanent and the remainder will be construction jobs.

TRANSPORT

Air

British Airways (BA) has forecast a slowdown in the economy but is not expecting a recession. Senior management also believe the company's cost cutting measures place it in pole position to deal with the economic slowdown. BA has announced savings of £600 million this year and plans to cut costs by £1 billion by the year 2000. Major cost cutting schemes include the contracting out of all catering, wheels and brakes maintenance and the retiring of older staff coupled to the introduction of starter rates of pay. Aircraft capacity will only be expanded by 2% this year as opposed to the normal 8%. BA's business and first class traffic fell by 2.4% in October while cheaper travel increased by 14.5%. BA is widely regarded as a reliable barometer of the economy in general and in the six months to September the company's profits fell by 10.5% to £385 million. This figure includes exceptional items such as the cost of the cabin crew strike and the sale of the £125 million stake in US Airways. The interim dividend grew by 8.5% and this left the share price unaffected.

Road

The government is to introduce two pilot projects (one in Scotland) on motoring tolls. The trials will involve testing motorway and urban driving tolls. This reduces the area in Scotland to around Glasgow (the M8, M73, M74, M77 and M80) and Edinburgh (the M8, M9 and M90). The trials will last for 12 months. The Scottish Parliament could pass enabling legislation thereby allowing the Scottish trials to take place before the English pilot. One of the objectives of the trials is to examine possible charging regimes and to devise a fair level of cost.

FirstGroup have also forecast an economic downturn next year but expect their commuter and regional airports businesses to hold out. The group announced a rise in pre-tax profits for the six months to September of £8 million taking pre-tax profits to £38 million. After special items are accounted for profitability is over 40%, up to £45.5 million. Operating profits rose to £44.2 million aided by the acquisition of Mainline and Capital Citybus. The company also indicated that the price war within Glasgow had cost them £4 million but that had to be viewed relative to their competitor.

There are concerns over Stagecoach's latest strategic moves with analysts unimpressed by the Virgin Rail deal and their activities in the Far East and China. On closer examination Stagecoach has entered a lucrative market offering vast experience of successful commercial transport operations. It is however their pioneering move into road tolling in China via the Hong Kong company Road King that is the real talking point. The UK is moving towards road tolls and their experience in China will undoubtedly be of immense value here given the tortuous difficulties associated with tolling. This would not be the first time that Stagecoach has placed itself in prime position for a lucrative contract arising from government transport proposals.

Rail

John Prescott has announced a radical restructuring of the way the railway industry is regulated. Many senior figures have already been replaced and BR is to be slimmed down extensively. It will form part of the new Strategic Railway Authority (SRA). A failure to get a bill in the Queens Speech however does not allow the SRA to regulate freight or rolling stock companies.

Rail fares are set to rise by up to 26%. Virgin's West Coast Mainline (WCML) service could be one of the hardest hit with higher than average price rises. The business and first class fares will probably only increase below or in line with inflation with the fares increase targeting off peak travel and discounted travel (APEX, Super Saver etc.). The government has indicated that recently, on average, rail fares have fallen last year but seem resigned to the fact that the increases are inevitable.

Passenger growth on the WCML has been 13% since last March according to Stagecoach who has a 49% stake in Virgin Rail. Annualised cost savings are estimated to be £12 million. Virgin plan to introduce rail services by the year 2000 to areas of the UK that have none. This is because of extra capacity after its new trains are delivered for the WCML and cross-country services. The Royal Bank of Scotland (RBS) are a partner in the £850 million finance agreement for Virgin Rail's new trains proving its importance in this sector. RBS will use Angel Train Contracts, its subsidiary, as the preferred bidder for the WCML order for 55 tilting high-speed trains worth £500 million from Fiat Ferroviara and Alstom.

The rail regulator is to allow competition for up to 20% of rail revenues from next September, a move that could favour Virgin despite its recent problems. Increased competition, shorter and more comfortable journeys by rail could eliminate the need for London-Manchester flights although flights to Glasgow would still continue.

Sea

Clydeport's first half profits rose by 21% for this year as all areas of the business recorded improvements. Shares peaked at 192.5p recently and the dividend increased by 15.9%. Turnover increased by 20% to £12.4 million. The total tonnage recorded at Hunterston was 1.1 million tonnes (mostly coal) and this is predicted to rise to 2.5 million tonnes this year. Of the £4.8 million profits, £4.2 million came from ports operations; property investment profit increased from £1.19 million to £1.28 million for the same period.