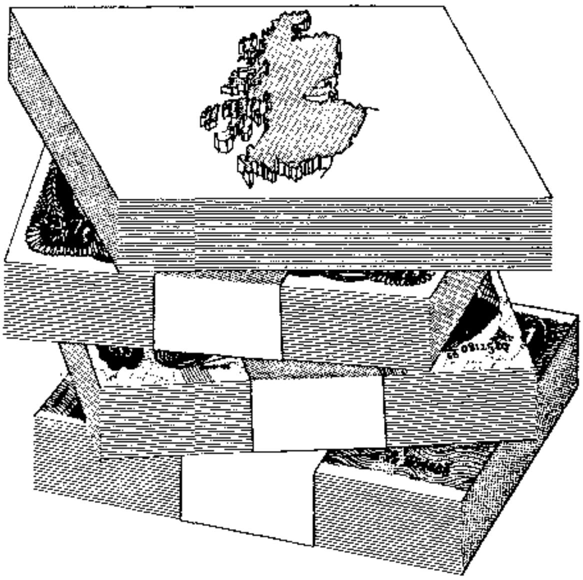
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

Between them, the Scottish Chambers' Business Survey (SCBS) and the CBI's Industrial Trends Survey provide a reasonable guide to recent and current trends in the Scottish economy. Both Surveys are carried out on a quarterly basis, with the respondents being derived from members of the Chambers of Commerce of Aberdeen, Dundee, Edinburgh and Glasgow, and from members of the CBI. The Surveys differ in respect to the questions asked and the analysis of the replies; the CBI provides information on trends by size of firm, whereas the SCBS presents a geographical breakdown. The main difference however, lies in the industrial coverage, the CBI Survey only covers manufacturing industries, whereas the SCBS includes firms in construction, wholesaling, retailing, financial institutions and manufacturing sectors.

The July Industrial Trends Survey of the CBI Survey took place between Wednesday 21 June and Wednesday 12 July 1989. The SCBS took place between Monday 17 July and Monday 21 August 1989. Both were carried out against a background of high interest rates, rising inflation and a high exchange rate.

CBI Survey

The CBI Survey registered a balance of -1% of respondents who were more optimistic about their general business situation, compared to a figure of -12% in the previous survey. All industrial sectors, with the exception of 'food, drink and tobacco,' were less confident than during the previous survey. The slight increase in optimism coincided with a growth in demand of more than had been expected from the previous survey; the balance of respondents experiencing an increase in new orders has risen from +4% in the April Survey to +14%. There are sectoral variations, however, with textiles and chemicals indicating a fall in demand. This growth in orders is expected to continue in the next three months with an expected balance of +15%.

The rate of growth in the volume of manufacturing output may have slowed down a little since a balance of +12% reported an increase in output compared to +14% in the previous survey. The exceptions to this were medium-sized firms 'food drink and tobacco' and 'other manufacturing' firms, as they experienced stronger output growth than was reported in the April Survey. A balance of +18% of respondents to the CBI Survey are expecting a stronger growth in manufacturing output over the next four months.

All size firms and all sectors, with the exception of 'textiles' expect output volumes to increase over the next four months.

As with the SCBS, the most frequently sited constraint on output was a shortage of orders or sales. However, according to the CBI survey, the proportion of respondents mentioning this factor fell from 70% in the April Survey to 58% in the latest survey. The Survey indicates that large firms appear to be the least affected by shortages in demand. This factor appears to be becoming increasingly important for respondents in 'chemicals' and 'metal manufacturing' firms. Firms reporting a shortage of skilled labour as the major constraint on output increased from 8%

in April to 21% in the July Survey. Plant capacity was also expected to be a constraint on output for 21% of respondents over the 4 months following the latest survey.

As was the case in the previous CBI Survey on balance, manufacturers expect to authorise less capital expenditure on plant and machinery over the next 12 months than they did over the previous 12 months. According to the Survey, respondents in 'engineering', 'textiles' and 'other manufacturing' all expect to invest less over the next year. 77% of respondents cite increasing efficiency as the main reason for authorisation of capital expenditure. 43% of respondents cited replacement, and the need to expand capacity was cited by 29%. Present high interest rates are reflected by 15% of firms citing high interest rates as a constraint on output - the highest figure since July 1985.

Despite the expectations in April of a build up in stocks of finished goods, there is evidence of destocking over the previous four months, reflecting the stronger than anticipated growth in demand. This destocking is expected to continue over the course of the next survey. The faster than expected production growth has lead to the running down of stocks of raw materials.

Despite the expectations of further job losses in the April Survey, a balance of 10% of respondents reported that employment in the manufacturing industry has risen over the past four months. This was the first positive balance since October 1988. 'Food, drink and tobacco' was the only sector to report a fall in employment, among a balance of respondents. Over the current quarter, a balance of +1% of respondents are anticipating a further rise in employment.

According to the respondents of the CBI Survey the growth rate in average costs per unit of output has slowed during the previous four months, with a balance of +27% of respondents reporting an increase in costs in July, compared to +34% in the previous survey. Over the current four months, a balance of +32% of firms expect a rise in unit costs. In line with the moderate growth in costs, firms experienced a slowing in the rate of growth of average prices.

A balance of +24% of respondents reported an increase in average prices compared to +30% in the April Survey. The sector showing the most marked slowdown was 'Chemicals'.

As is the case in the SCBS, export prospects appear to be fairly favourable, with export optimism at +19%, compared to zero in the previous 'Survey'. However, 'textiles', 'metals' and 'metal manufacture' did report reduced confidence levels compared to four months ago. Increases in the volume of new export orders continued into this survey, with a balance of +14% of respondents reporting increases compared to +12% in the April CBI Survey. This trend is expected to continue into the current four months. There was a significant improvement to export order books in the July Survey with a balance of +23% of respondents reported export order books to be above normal, compared to a balance of -6% indicating below normal order books in April.

The rate of increase in average prices at which export orders are booked slowed to their slowest rate since January 1988. A balance of +7% reported an increase in average export prices, down from +43% in April. The sharpest slowdowns ocurred in 'food, drink and tobacco', 'chemicals' and 'metals and metal manufacture'.

59% of firms cited prices as the most important factor likely to limit the ability to obtain export orders over the months to October. The second most important factor remains political on economic conditions abroad, this was cited by 22% of respondents.

<u>SCBS</u>

The August SCBS suggests that the Scottish economic climate has deteriorated over the few months to July for Scottish firms. However, optimism remains fairly high for firms in construction and retail distribution.

Manufacturing respondents continued to be pessimistic about the general trading situation, with a balance of optimism figure of -14% compared to -13% in the previous Survey and the lowest ever figure of -20% in July 1986. All areas, except Edinburgh, seem pessimistic. Exports remain the only positive trend with respect to new orders and sales. A marked deterioration was recorded for 'Rest of UK Orders', from a balance of 0 in the previous Survey to -12% in the latest Survey. Orders and sales is the factor most likely to limit manufacturing output over the next three months. This was cited by 44% of respondents compared to 41% in the previous Survey. Regionally, only in the Edinburgh area (which has for a long time been relatively depressed) did a balance of firms report increased optimism compared with the previous Survey, reflecting an expansion in sales, orders, and employment in the area, on balance. In Aberdeen and Glasgow a net of -13% and -14% of firms, respectively reporting decreased optimism. The balance of optimism in Dundee was -8%.

In the Aberdeen oil sector the balance of optimism figure was +37%. Oil recovery was down for a net 21% of firms, however, it is expected to rise for a net 37% of firms.

Firms in the Scottish construction sector are still fairly optimistic about the general trading situation. A balance of +21% are optimistic compared to a balance of 35% in the previous Survey. This optimism would seem to be based primarily on private sector orders, which increased for a net +23% of respondents. A net 29% of firms experienced a rise in total employment, with a balance of 34% of respondents expecting total employment to rise during the current quarter. On balance, the volume of work in progress rose among a net 30% of firms.

The only area with a negative balance of optimism figure in construction was Aberdeen, with a figure of -12%. The main problem that appears to be affecting Aberdeen construction firms is a shortage of skilled labour with 73% of firms citing this as the factor most likely to limit their output in the current quarter. The Dundee construction sector has been considerably over-optimistic with regard to orders, sales and employment. Orders were expected to rise by 60% of respondents and in fact rose by a net 33%. Employment was expected to rise for a net 54% of firms and rose for a balance of 0%. The main limit to output for Dundee construction firms is expected to be a lack of orders and sales. Edinburgh is the most optimistic chamber with a net 60% of construction respondents being more confident about the general business situation. Construction firms in Glasgow see orders and sales as the factor most likely to limit their output during the current quarter, with 49% of firms citing this response. Business situation optimism in Glasgow remains fairly high at +20%.

On balance, Scottish wholesalers are now much less optimistic about the general trading situation than was the case from the previous SCBS, -2% compared to +18%. The volume of sales rose over the past quarter, with a balance of 68% of companies reporting rises. This outcome broadly matched the expectations from the previous Survey, and this trend is expected to continue during the current quarter. Wholesalers reported little change in employment, except for in Dundee where full-time and part-time employment has fallen for a net of 65% and 71% of firms respectively.

Retailing respondents continued to report a favourable balance of optimism about the general trading situation, with an optimism figure of +8%, although less so than from the previous survey, when the corresponding figure was +20%. Most firms experienced an increase in sales in the previous quarter and further buoyancy in sales is forecast for the next three months.

Most respondents reported static employment levels, and a similar trend is expected over the 3 months to September, however, in Dundee, 44% of respondents expect employment to fall. Prospects for part-time employees in Aberdeen look bleak with a net 55% of respondents expecting part-time employment to decrease. Retailers identifying insufficient floorspace and stock shortages as the principal factors likely to limit sales during the three months to September. Investment intentions in premises on balance, have been revised upwards.

Scottish financial institutions reported strong growth in the levels of both personal and corporate advances, with a balance of +48% of financial institutions reporting increases in the two categories. Corporate advances were expected to grow even more rapidly during the 3 months to September. There was rapid growth in corporate advances over the period of the Survey in all sectors, with demand for credit from construction firms rising most rapidly. This is a trend that was expected to continue. There may be signs the high interest rates could be starting to affect private orders to construction firms as this area is not as buoyant as it was in the previous Survey. Demand for working capital once again proved to be the main reason for corporate advances. The demand for credit investment purposes has increased since the previous SCBS with a balance of +20% of firms increasing their demand for credit compared to -23% in the previous Survey. A net of +12% of financial institutions experienced an increase in demand for credit for investment in plant and machinery, compared to -1%

in the May Survey. Surprisingly, the level of demand for personal advances has risen among a net of 48% of respondents, this was not expected from the previous Survey and is not expected to continue.

Summary

In summary, both the SCBS and CBI Survey remain fairly cautious about the recent trends in the Scottish economy. The SCBS, however, would appear to be more pessimistic about the general trading situation for manufacturing, with business optimism at the second lowest figure since the SCBS began. However, firms remain fairly optimistic over the prospects for exports according to both Surveys.

Primary

AGRICULTURE AND FORESTRY

The European agricultural industry is undergoing a gradual but significant long term structural change in the late 1980's; Scottish agriculture faces pressures and opportunities reflecting these changes, and the process of change is likely to continue for a considerable time into the future.

Unlike most other sectors of the economy, the agricultural sector is highly regulated at a transnational (i.e. European) level. Previous issues of this Commentary have explained some of the reasons behind this, which will not be repeated here. The impetus for change arises from the evolution of the EEC Common Agricultural Policy (CAP), interacting with changes in patterns of land use common throughout many European economies.

Three issues are central. Firstly, a belief has become established that agricultural output is excesive (relative to the growth of demand within Europe). The guaranteed price system, has been identified as an important factor in this perceived overproduction. Secondly, rural areas, particularly those in peripheral regions of the EEC bloc, have been experiencing continuing relative decline. The nature of this decline is multi-dimensional, but often includes population loss, difficulties experienced by local communities in finding local employment, and changing patterns of activity as traditional sources of income and employment become difficult to sustain, and as cultural identities and tradiions become undermined. Some of these phenomena can be seen in Scottish rural areas.

Thirdly, and linked in some ways to the previous two developments, agricultural practice has come under increasing attack from a variety of conservationist perspectives. As 'Green' politics become more powerful in political influence, so EEC policy to agriculture is adjusting.

So how are these changes affecting agriculture in Scotland? One way is through limits that have been introduced on livestock headage payment, and by alterations more generally to the package of price support measures on agricultural commodities. The central driving force behind changes to price support schemes is the attempt to move away from the encouragement of production volume alone. With the co-responsibility levy on cereals and milk production, for example, taxes are levied at varying rates when output exceeds previously determined EEC quota levels. For cereal farmers in Britain, for example, the National Farmers Union has estimated this levy to have reduced cereal farmers income by about £100m in a full year. Similarly, the over production of milk is expected to lead to a levy of over £1 million on Scottish dairy farmers, representing approximately £1,666 levied on each farmer. What is particularly difficult for the individual producer is the uncertainty inherent in the co-responsibility levy system; the farmer has to base plans on forecasts of production levels at which the tax becomes payable, produced by bodies such as the Scottish Milk Marketing Board. However, such forecasts can be very inaccurate, as appears to have been the case this year for milk production.

The accent of price support is, instead, moving towards the particular support of small producers, particularly those in rural areas. Indeed, a large part of the £3 billion projected savings in EEC agricultural expenditure are intended to be directed into rural development. Examples of the opportunities that such rural development schemes offer to Scottish regions were given in the previous issue of this Commentary; Highlands and Islands and Dumfries and Galloway have already been designated as areas qualifying for special assistance under rural development aid programmes.

Thirdly, it is likely that over the next ten years, EEC price and income support will be more strongly linked to the extent to which agricultural practice has environmentally-adverse consequences. This has become manifest already at a national government level with Britain. For example, "Set-Aside" may be viewed in this light and the higher grants paid to broadleafed and diversified afforestation (as compared with coniferous planting) reflect views commonly held as to environmental costs and benefits of alternative tree planting regimes.

Desirable as some of these changes may be at an "overall" level, such changes clearly affect individual farmers badly in the short run (at least). Sheep meat support will almost certainly be run down significantly in the 1990's, with grave consequences for the upland economy. It is clearly desirable, if farmers can diversify to minimise consequences of this reduced support. One scheme being developed in Scotland now is the development of a capacity to produce fine wool for an expanded high quality Scottish textile industry. The Scottish Fine Wool Project, backed by the Scottish Development Agency and eight textile groups, comprises a group of Scottish Sheep Farmers attempting to cross mature Cheviot and Shetland sheep with European Merinos, and to produce the fire wool required in sufficient quantities for viable commercial production in Scotland. At present, wool accounts for between 2.5 and 5% of sheep farmers' revenue. This proportion could increase dramatically if the selective breeding project finds increased acceptance in the next few years.

Returning to the current position, the economic squeeze on farmers shows no sign of letting up at present. In addition to EEC changes, farm incomes are being affected by inflationary pressures. During the two years to March 1989, agricultural inputs have risen in price by 10%, whilst the index of agricultural output prices has remained virtually constant. Within this overall picture, livestock producers have fared rather better than average, and arable farmers worse. Donald MacRae of TSB Scotland, recently argued that the official farm income statistics give a misleading picture of the trend in real incomes; he suggests that farm incomes per se are being squeezed so sharply for small farmers that many are being forced to find secondary incomes to compensate. The inclusion of these secondary incomes in 'farm income' statistics thus understates the decline in true agricultural income.

The long term implication of the relative decline in farm incomes is likely to be a reduction in the size of the sector. A NEDO (National Economic Development Organisation) Report - "Work in the Countryside: Agricultural and Rural Employment in the 1990's", NEDO - recently argued that 20% of the current full time agricultural workforce in the UK will leave farming by 2000, with much of this change affecting small farmers. It argues the case for greater farm diversification (including deer and fish farming, organic food, and forestry and farm woodlands), but believes that such diversification will only provide employment opportunities for a limited number of those leaving agriculture. For Scotland in particular the report suggests vegetables could be marketed more effectively to provide a stronger Scottish identity, and good expansion prospects existed for food processing, potato production, foresty, and wool, deer and fish farming.

Considerable attention has been devoted recently to agroforestry and farm woodland schemes. Britain has little experience of agroforestry at present, but the prospects were explored at a conference in Edinburgh in July. Previous issues of this Commentary have examined the potential farm woodlands offer for timber reserve, shelter, sporting income and other amenities. Courses describing farm woodlands schemes are now widely available in Scotland through the Centre for Farm Forestry at Bush Estate, near Edinburgh.

However, farm forestry is not without its difficulties, and a recent report by land use consultant Dremmar Watson, after examining these schemes in six European countries, concludes that many farm forestry schemes are facing major economic and social problems. The small scale of tree plantation in farm-forestry schemes is a particular difficulty, and one which is difficult to resolve.

Turning to large scale forestry, earlier issues of the Commentary have described the large scale fall in new plantation since the 1988 Budget. In August, Fountain Forestry was the subject of a £2 million management buy-out; the price was broadly equal to the resource-asset value of the enterprise. The new owners are confident that new plantings will pick-up in the current season, with recent low levels reflecting adjustments to the new tax regime that were now completed.

FISHING

Table 1 presents data on the value of fish landed into Scotland by UK and foreign vessels in the period January to June 1989. Also included for comparative purposes are the equivalent data for the same period one year earlier.

The general picture is one of decline by volume and value for the majority of categories and species. In total, the six month catch value of £111m was ten percent lower than one year earlier, reflecting premarily a volume fall of 12%. (Prices were, on average, 3% higher).

The falls were largest for demersal (whitefish) species; on this category a 16% volume fall and a 5% price rise led to a value fall of 13% to £79 m. Cod landings were down by 22% on landings weight. Large falls in volume can also be observed for

Fish landings in Scotland: January to June 1989 - compared with corresponding period in 1988

	Jan-Jun 1988			Jan-Jun 1989			89 as % of 88		
	Weight	Value	Price	Weight	Value	Price	Weight	Value	Price
	Tonnes	£'000	£/T	Tonnes	£'000	£/T	%	%	%
Landings by UK Vessels									
Demersal	132,989	90,516	681	111,252	79,147	711	84%	87%	105%
Pelagic	57,604	6,316	110	54,056	5,759	107	94%	91%	97%
Shellfish	18,876	25,834	1,369	19,187	26,047	1,358	102%	101%	99%
Cod	26,579	23,963	902	20,712	19,111	923	78%	80%	102%
Haddock	38,710	31,955	825	33,520	28,465	849	87%	89%	103%
Whiting	16,349	9,564	585	12,437	7,822	629	76%	82%	108%
Dover Sole	38	122	3,211	37	129	3,486	97%	106%	109%
Hake	987	1,196	1,347	842	1,227	1,457	95%	103%	108%
Lemon Sole	1,238	1,612	1,302	1,152	1,641	1,424	93%	102%	109%
Megries	1,396	1,363	976	1,257	1,258	1,001	90%	92%	103%
Monks	4,005	6,973	1,741	4,466	7,632	1,709	112%	109%	98%
Plaice	3,699	2,642	714	3,088	1,710	554	83%	65%	78%
Saithe	9,594	3,636	379	6,216	2,489	400	65%	68%	106%
Skate	2,215	1,130	510	1,807	983	544	82%	87%	107%
Norway Pout	1	1	1,000	1	1	1,000	100%	100%	100%
Sandeels	20,157	713	35	17,835	682	38	88%	96%	108%
Mackerel	49,015	5,681	116	42,790	4,969	116	87%	87%	100%
Herring	3,618	439	121	4,825	534	111	133%	122%	91%
Crabs	1,764	1,350	765	1,773	1,494	843	101%	111%	110%
Lobsters	160	1,429	8,931	153	1,463	9,562	96%	102%	107%
Pink Shrimps	110	114	1,036	336	385	1,146	305%	338%	111%
Scallops	2,405	3,577	1,487	2,224	3,839	1,726	92%	107%	116%
Norway Lobsters	8,307	16,512	1,988	8,531	15,572	1,825	103%	94%	92%
Queen Scallops	1,815	658	363	1,655	562	340	91%	85%	94%
Total by UK Ves.	209,469	122,666	586	84,495	110,953	601	88%	90%	103%
Land.by for.ves.	20,611	2,435	118	16,313	2,197	135	79%	90%	114%
Tot.land.in Scot.	230,080	125,101	544	200,807	113,149	563	87%	90%	104%

Source: Scottish Office Fisheries Statistics haddock (-13%) and whiting (-24%). Only for one species, monkfish, were volume landings higher in 1989 than 1988.

Pelagic species, the two main examples of which are mackerel and herring, show a mixed picture. Mackerel landings were down by 13% in both weight and value, whilst herring rose by 33% in weight and 22% in value. The dominance of mackerel in the total pelagic catch ensured, however, that the total value for pelagic species (£5.8m) was down compared with 1988 (by 9%).

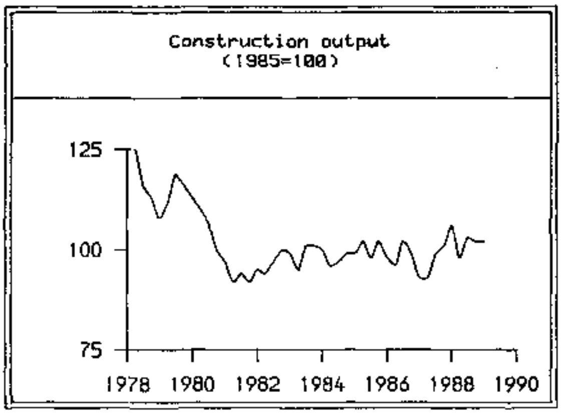
Whilst individual shellfish species exhibit substantial changes in both volume and weight in some cases, the category total was virtually unchanged at £26m.

It is interesting to compare these short term changes at the single country level with changes occuring at the global level over a long term horizon. A recent OECD report examined the world fish catch over the 25 years from 1963 to 1988. It found the total world catch had nearly doubled from 46 million tonnes to 85 million tonnes over the period. Of these totals, the proportion being marketed through world trade has remained nearly constant at around one third. Further details on the changing patterns and compositions of world fish catches and trade may be found in "Fisheries Issues. Trade and Access to Resources" OECD, Paris, 1989.

Construction

The index of production and construction for Scotland in the first quarter of 1989 stood at 105.2 showing an increase of 3.5% from the fourth quarter of 1988. However there is a drop of 0.4 when compared with the first quarter of 1988. Whilst the UK as a whole also exhibited a growth of 3.5% it is standing at 122.5 which is 17.3 points up on the Scottish figure. Indeed it is true to say that the Scottish Construction industry has consistently been out performed by the UK as a whole since 1985. This is of course largely due to the boom in the South East.

A net 21% of respondents to the latest Scottish Chambers' Business Survey (SCBS) are more optimistic about the general business climate than was previously the case. Respondents reported a 23% net increase in private sector orders and whilst central government orders remained flat a net figure of 7% of respondents experienced an increase in orders from the remainder of the public sector. The expected trend in the total volume of new orders for the next three months is upwards, with central government, other public sector orders and private sector orders showing net increases of 14%, 19% and 21% respectively. Respondent firms reported a net increase in employment of 29%, with 32% of respondents showing a net increase in manual employment and 26% exhibiting increases in non-manual employment. The expected future trend for respondent firms is for this situation to continue to improve, a net figure of 34% of firms forecasting a net increase in total employment over the next three months. For respondent firms the shortage of skilled labour as a limiting factor to output now appears to have stabilised at 16%. However, firms the largest constraint to future output is the level of orders or sales with 85% of SCBS firms citing this as their main reason.



NHBC Scottish housing "starts" rose by 14% to 4,000 in the second quarter of 1989, however, housing completions fell from 3,600 in quarter 1 to 3,000 in quarter 2, a fall of almost 17%. The Great Britain figures for "starts" and completions in the second quarter of 1989 are 46,700 (down 6.4%) and 44,700 (down 5.7%) respectively.

The National Council of Building Material Producers predict that British construction output is expected to fall next year after nine consecutive years of growth. Whether Scotland's construction industry can escape this downturn is dependent on whether interest rate rises continue to restrict commercial investment in buildings and prevent first time buyers from gaining that initial step on the property ladder.

The NHBC first time buyers ability to buy index is down 14 points to 51, which is almost half of what it was a year ago. This index is a national index which takes account of the deposit required, income and repayments necessary for first time purchasers. The higher the index, the greater the ability to buy. This index has proven to be a good lead indicator of housing starts with a time lag of two quarters and would seem to indicate that the boom is definitely over. Scotland seems to lag behind the UK as a whole and so it seems likely that housing starts will increase for the third quarter of 1989 and will then start to fall.

Energy

OIL AND GAS

The Royal Bank/Radio Scotland oil index stood at 117.7 in August, up 5.8 for the month. This represented an increase of 95,000 barrels per day (bpd), an estimated daily value of £20.6m for total production of 1.94m bpd. The RB/RS oil index of 117.7 is the highest this year but is still 10% below the August 1988 figure (the first month to include the Piper Alpha losses).

There are likely increases in production through the Flotta pipeline system with the Claymore field having resumed production last month, and when the gas lift is restored from Tartan production will increase by 50,000 to 70,000 bpd from the mere 6,000 bpd recorded in August. Present oil flow using Flotta is running at 150,000 bpd which is only marginally more than the output from Piper alone in early 1988 but is expected to reach the 200,000 bpd level in the near future.

The average price of Brent crude was down 60 cents in the month to $16.98 although it has firmed in September. The Sterling value of North Sea Oil was down only 24p to £10.64, due largely to a strengthening dollar.

BP's recent announcement of 920 job losses (gross) is expected to result in an actual net loss of less than 300 jobs in its Scottish operation. This is tempered by their decision to locate the project team for their £1.5 billion Bruce gas field project in Glasgow, with a suggested figure of 500 jobs to be created over three years.

The forecasts for North Sea developments are good, with the UK Offshore Operators Association (UKOOA) publishing a very bullish 25 year forecast for British Oil and Gas production. They predict oil and gas production at 1.4m bpd in 2013 compared with around 2m bpd today. This implies that there will be only gradual decline and not the more dramatic decline predicted by others. The UK would not be totally self sufficient by this time but would be supplying the great bulk of its own oil needs. The UK would be able to meet gas requirements well into the next century as undeveloped fields are exploited. These undeveloped discoveries are expected to contain 6.4 bn barrels of oil and 33.4 trillion (million million) cubic feet of gas.

The move towards a single European Market will present a serious challenge to oil industry contractors. Forthcoming EC legislation, whereby oil companies will be obliged to advertise all supply contracts worth in excess of £135,000 and major works contracts worth more than £3.5 million in the EC's official journal.

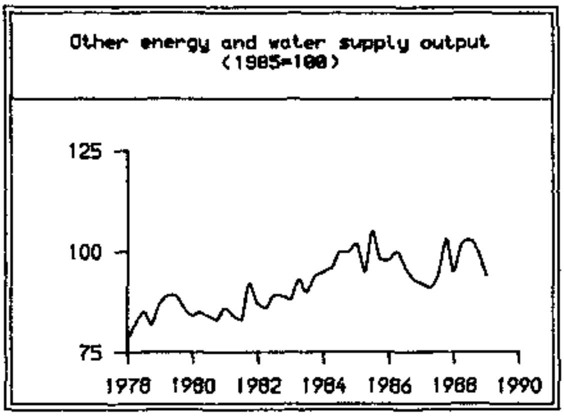
The SDA states that the present buoyant state of the UK offshore market - which this year represents about 70% of total offshore spending will make it a most attractive EC market to European companies.

At present about 80% of contracts measured by total value are home based but if the UK based offshore supply industry was to lose say 10% of the current UK continental shelf market to competition from other EC members, it is estimated that an additional 25% of other EC member state markets would have to be won to compensate for lost orders.

Conditions in the Oil and Gas sector are turbulent with the short term prospects good and in the longer term there will be additional developments of new fields the vast majority of these will be small and profit margins will be reduced due to increasing competition. A longer term approach is necessary and small supply firms must invest as requirements increase the need for specialisation.

COAL, ELECTRICITY AND OTHER ENERGY

The uncertainties surrounding the future of the Scottish electricity industry are now primarily focused on the prosoects for exports to England, where the government's proposals for the organisation of the 'market' between electricity generators and distributors are still fluid. The current position is that a computerised spot market, with market clearing prices, will be used in England and Wales, rather than the previously proposed computerised system of sellers' and purchasers' pools. In the revised system, a separate market for generating capacity will be created by the requirement for electricity distributors to hold tradeable 'capacity certificates', enabling them to buy electricity. The large English generating companies will be required to sell electricity to the market at prices close to marginal costs, both to ensure that the most efficient plants will be used and to prevent the cross-subsidisation of inefficient plants as a means of preventing competition. The intention is clearly that the independent generators are seen as the key to the introduction of competition in electricity generation in England and Wales.

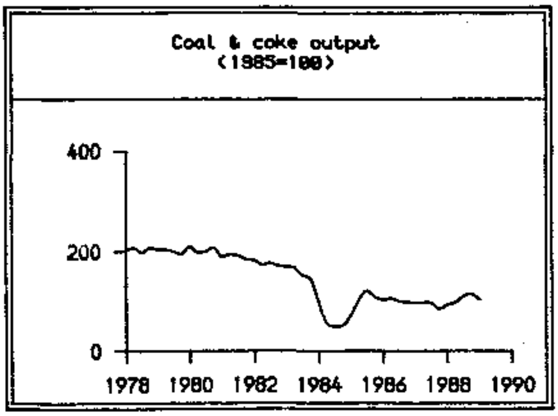


From Scotland's point of view, these developments are interesting. As importers to England, the Scottish generators will presumably be treated as 'independent' producers of electricity, exempt from the marginal cost regulations. At first, together with French imports, they will be among the largest of the independent generators, although with still a low market share. As a result of the continuing over-capacity north of the border, Scottish electricity exports should have fairly competitive marginal costs, although any new English generators using combined-cycle technology and with the benefit of shorter transmission lines and lower debt burdens may be able to undercut them. The question of major importance, though, is how tight the regulation will be of the two major English generators, National Power and PowerGen. A 'light touch' could lead to cross-subsidisation or other methods of reducing competition. The ability of independent producers to compete for long-term contract supply is also uncertain.

The changes to the electricity dealing market are likely to put privatisation back by six months, although this has yet to be confirmed. Clearly, the implications for the Scottish utilities are fairly important, so the expectation has to be that their sale will also be delayed, most likely to autumn 1990. The new names for the Scottish firms have been announced: the South of Scotland Electricity Board will become Scottish Power plc, while the North of Scotland Hydro-Electric Board will become Scottish Hydro-Electric plc. Their new jointly-owned nuclear subsidiary will be Scottish Nuclear Ltd.

Uncertainties have also been created as to the level of support for nuclear power. The previous Energy Secretary, Cecil Parkinson, agreed to support nuclear power generation as a means of reducing dependence on fossil fuels, particularly coal. More recently, the older English Magnox power stations have been removed from the privatisation package, at least for the time being. Although Scottish Nuclear would presumably receive some of the government funds for nuclear power, there are some concerns that since the English stations have been run less efficiently in the past, these funds may enable them to compete more effectively in their home market. The obverse of the government's pro-nuclear stance is the requirement for the electricity distribution companies to purchase a minimum percentage of non-fossil generated electricity. This is expected to maintain demand for the more expensive nuclear-produced electricity to the end of the century, although questions are beginning to be raised about the true costs of nuclear energy. At the same time, coal-produced electricity will become more expensive than hitherto as a result of the long-awaited restrictions on the production of gases that cause acid rain. The first English plant to be modified to reduce atmospheric pollution is at the Drax complex in Yorkshire, which is one of the largest, most modern and efficient coal-powered stations and so can justify the additional investment. Many of the smaller, older plants will not be adapted.

In summary, electricity policy is passing through a turbulent time, with policies on privatisation and the environment having the potential to affect strongly the Scottish electricity industry, even where the changes apparently affect only the English industry. While some questions concerning privatisation are becoming somewhat clearer, a number remain, such as the regulation of direct generator to consumer supplies. In this atmosphere, it is little wonder that the generating companies are seeking to minimise their asset values on privatisation.

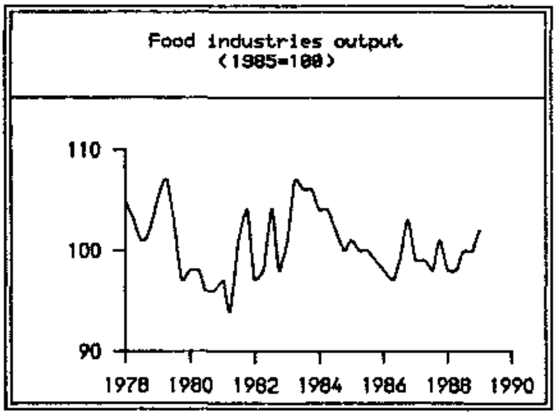


The Scottish coal industry is facing further closures in the light of falling demand for coal from the South of Scotland Electricity Board (SSEB) and as British Coal begin to adopt policies appropriate to privatisation, which will occur should the Conservatives win the next general election. The miners at Monktonhall, formerly linked to Bilston Glen, have now accepted redundancy terms and the pit has closed. This leaves Longannet as the sole remaining Scottish deep-level pit. Despite improved output, this pit is now endangered by a management reorganisation, which is expected to end the cross-subsidisation of deep-level coal by Scottish open-cast pits. Despite these moves, British Coal is continuing its legal action against the SSEB in an attempt to enforce the uptake of 600,000 tonnes of Scottish Coal a year for the Cockenzie power station. The 1988 increase in the output of the Scottish Coal industry, as measured by the index of production, were partially reversed in the first quarter of 1989, as the effects of last-ditch productivity improvements and maintenance run-down have been replaced by the effects of the closures. Further falls will occur as the closures feed fully through.

The Scottish water industry, operated by the Regional Councils, may face considerably increased costs from requirements to improve water quality, as is occurring in England. Presumably, a further term for the government would result in privatisation for this section of the industry.

Manufacturing

FOOD, DRINK & TOBACCO

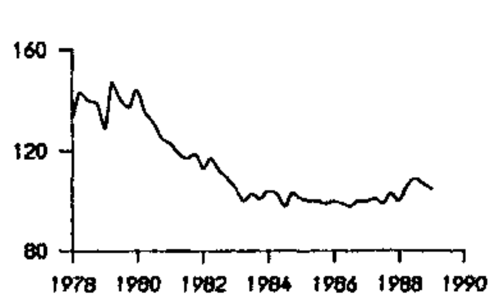


The Index of Production figures for the food industry in Scotland stood at 102 for the first quarter of 1989 - a 2% increase from the last quarter of 1988 and 3% higher than the overall figure for 1988. The 1989 first quarter figure for the UK is 104 which is a fall of 1% from the UK average for 1988.

The drink and tobacco index for Scotland has fallen by 2% from the final quarter of 1988 index of 107 and now stands at 105. The overall figure for 1988 was 106. The UK index has fallen 4% from 108 in the last quarter of 1988 to 104. The overall 1988 index, like that for Scotland, stood at 106.

The latest Scottish Chambers' Business Survey shows that a Balance of 37% of firms are more optimistic about the general business situation than 3 months ago. This reflects the trend that in the last 3 months a balance of 23% of respondents increased their total volume of new orders and a net 35% increased their total volume of sales. Further to this, with regard to the expected trend for the next 3 months, a balance of 35% of responding firms expect orders to increase and a net 42% expect sales to improve. Exports both to the rest of the UK and abroad have, on balance, shown most growth and are expected to continue this pattern.

Drink and tobacco industries output (1985=100)



Excluding seasonal pattern, a balance of 28% of firms show an increase in total employment. A net 17% experienced an increase in female employment while only a balance of 4% showed increases in male employment. The expected trend in employment for the next 3 months is less optimistic with a balance of 5% of firms expecting total employment to fall.

Investment for both plant/equipment and buildings appears encouraging with a net of 41% and 37% respectively of firms revising investment upwards.

Forth Valley Foods, makers of Highlander brand crisps, have announced £500,000 new investment in products which will be marketed abroad as well as in the UK. The investment which will be used to extend the premises, will create 30 new jobs taking the total number of jobs at the Broxburn plant to 80. There will also be an increase in the company's research and development on new products which is seen as being vital to the firm's rapid growth in this highly competitive market.

Pre-tax profits have fallen for a number of Scottish firms. John J. Lees, the bakers and confectioners, have suffered a drop from £485,392 to £410,012 to March 31st. Turnover rose, however, from £6.55 million to £7.67m.

A.G. Barr, the soft drinks group, have also shown poor first half figures with pre-tax profits falling from £2.36m to £450,000 despite turnover rising from £29.5m to £38.2m. The problem has arisen from its takeover of Mansefield Brewery's soft drinks company, Mandora St Clements, for £21.5m paid in cash. The money was raised from banks and large interest rate rises have increased interest costs from £126,000 to £921,000. Additional problems include rationalisation and redundancy costs associated with the takeover as well as there being water quality problems at both the Glasgow and Mansefield plants. Sales too, have been sluggish with the poor summer of 1987 combined with increased competition for UK sales, export sales losing contract bottling business in some European markets and a decrease in Middle-Eastern demand for concentrates taking effect. It is hoped that this year's good summer will redress the balance.

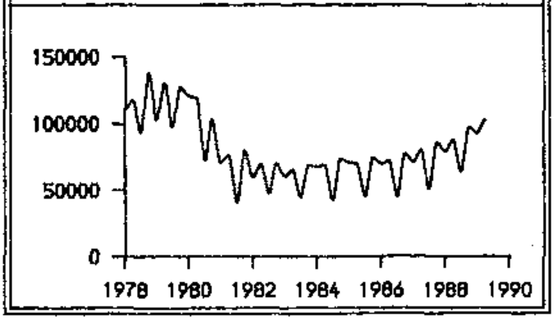
McCowans, the confectionery company, is now a Scottish firm again after having been owned by Nestle for more than 25 years. Three former senior Nestle staff have bought it over following Nestle's purchase of Rowntree and restructuring which left McCowans as the only sugar confectionery part of Nestle in the UK. The deal is said to represent the start of a new Scottish controlled force in confectionery and to bring benefit to McCowans and its workforce.

WHISKY

The export figures for Scotch whisky in the first half of 1989 are very encouraging. After a slight hiatus in the first quarter of the year, second quarter exports grew rapidly, and total exports for the year to June were 4.4% higher than last year at 116.7m litres of pure alcohol (LPA). Perhaps most encouraging is the performance of bottled-in-Scotland blends, the mainstay of the industry, which increased by 9.8% in the half-year to 80.6m LPA. This is important because much of the value added and employment of the industry is contained in blending and bottling operations.

At first sight exports of malt whisky appear to be continuing the boom of recent years - exports rose by over 20% in the six months to June to stand at 15.3m LPA. However, this is slightly misleading, because the growth in malt exports comes entirely from bulk malt whisky, the exporting of which continue to be the object of some controversy. While bulk malt exports rose by fully 30% in the first half of the year, bottled malt exports actually declined by 2.2% over the corresponding period in 1988. This may simply be a hiccup in the very rapid growth in bottled malt exports which has occurred in recent years, or it could indicate that as the fortunes of the industry improve, attention switches once again to the traditional blended whiskeys. For the time being, however, the upsurge in bulk malt exports does seem to run rather contrary to the industry's professed desire to concentrate on high value-added sectors.

Total whisky production
Litres of pure alcohol - thousands

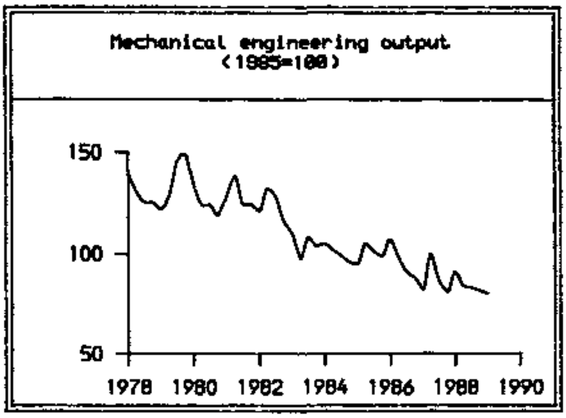


Certainly the whisky distillers are in no doubt that the fortunes of the industry are improving, and production is rapidly increasing to replace the stocks of whisky which have been run down recently. Total production in the second quarter of the year was 103.0m LPA, the first time the 100 million LPA level has been achieved since 1980. Total production for the first six months of 1989 was 17% higher than for the corresponding period in 1988, and 56% higher than in 1988, the leanest year of the recent recession. Malt whisky has been in the van of the new optimism, with production rising by 24% in the first half of the year. With the number of reopenings of malt whisky distilleries in recent months the rise in malt whisky output seems likely to continue for some time. The latest new opening to be announced is Ardbeg, the Islay distillery owned by Allied Distillers. This move clearly illustrates Allied's desire to share fully in the whisky recovery, coming as it does very shortly after the company's purchase from United Distillers of two other mothballed distilleries. The reopening of Ardbeg, which closed in 1981, will create 10 new jobs.

One might have though that with exports looking very healthy and with exports to Japan in particular up by 39% in the first half of the year, the industry would be feeling in magnanimous mood as it surveyed the prospects of further liberalisation of the Japanese market. But not a bit of it. According to the Scotch Whisky Association, the Japanese are resorting to underhand means in an effort to protect their home market in the face of the expected onslaught from imported Scotch. The practice at issue is that of selling spirits which are not whisky in bottles which closely resemble whisky bottles in size, shape and labelling, although the spirit which the bottles contain is never referred to as whisky. The S.W.A. is concerned that gullible Japanese consumers will be duped by these cheap "lookalikes" and that the reputation of Scotch whisky as a quality product will be eroded by default. The Association has now brought the practice to the attention of the Japanese government, but if no action is forthcoming the Japanese are being threatened with GATT or, even worse, with the wrath of Mrs Thatcher when she visits Japan.

The important company development in the industry arises from the successful management buyout at Whyte & Mackay, which reputedly cost £170m. This is the third management buyout in the whisky industry in less than two years (the others involved Inver House Distillers and Ivergordon Distillers), and in all three cases control of the companies concerned has returned to Scotland from England or America. There are now 27 operating malt and grain distilleries in Scottish ownership, raising the proportion of Scottish-owned distilleries above 25% for the first time in a decade. At the same time, North American companies have been disengaging from direct involvement in the industry; in the last three years both Publicker Industries (formerly owners of Inver House) and Hiram Walker have sold their Scotch whisky interests, leaving Seagram as the only sizeable representative with nine distilleries.

MECHANICAL ENGINEERING



The business expectations for the coming quarter in the August Scottish Chambers' Business Survey are more positive than in its predecessor, despite a mixed set of results for the quarter just past and decidedly poor figures for output in the first quarter of 1989. The greater optimism is the result of sales increases in considerably more companies than were previously expecting growth, although the balance of firms gaining new orders was negative. The level of demand is still, however, cited as the main constraint on growth. At the same time, the average level of capacity utilisation continued its slow crawl upward from a very low base. The high level of interest rates appears to be having an impact on the sector, as all firms now report static levels of investment.

The improved optimism may simply be a reaction to a slowing down of the decline in output, which fell in the first quarter of 1989 to a level nearly 5% below the previous quarter and 12% below the level of output a year earlier, according to the Scottish Index of Production. Of serious concern is the fact that the output of the industry in the whole of the UK has been increasing over this period.

Employment in the mechanical engineering industry has increased over the quarter just past, according to the August Survey. This trend is supported by the official statistics for the year to the end of March, which show an increase in employment in the Scottish engineering and metals industries of 4.5%, while the sector in Great Britain as whole had a decline in employment of 0.5%. These positive employment indicators are unlikely to last, according to the Survey. The prospect of redundancies at Anderson Strathclyde (see below) and a number of smaller firms gives credence to this view. These trends support the proposition that the Scottish industry is becoming more labour intensive than the UK industry as a whole, although the figures could equally be explained by events outside the mechanical engineering sector.

The more stable trading conditions during the financial year 1988-89 have been a contributory factor in the increased turnover and profits announced by both the Weir Group and by Howden. Both firms are undertaking programmes of strategic acquisition. In the case of Weir, this has led to the purchase of the English, US and South African subsidiaries of Hopkinsons Holdings for over £21m. These plants manufacture power station valves, often used in conjunction with Weir pumps. Weir have also entered a £5.3m investment project in oilfield drilling equipment, the aim being the in-house manufacture of precision components which are currently imported. Both of these moves appear to have positive implications for the Scottish mechanical engineering industry.

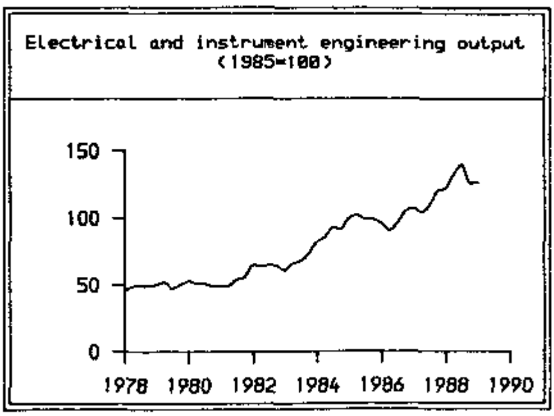
Howden's stated strategy is to increase margins on existing core activities, dispose of underperforming divisions and to make new acquisitions. Apart from the German tunnelling firm Wirth, referred to in recent issues of the Commentary, purchases over the last year have included a fan manufacturer, Davidson and a Dutch firm, Food Equipment. These purchases represent additions to both the core and new activities of the group. The acquisitions policy was made possible by Howden's low borrowings and necessitated by the anticipated fall in power station orders during the run-up to electricity privatisation. Without such a growth policy, Howden could also be more attractive to a potential purchaser. One area which has contracted is wind power, where Howden is closing the division in response to a failure of promised government orders to appear.

Another firm potentially susceptible to the changes in the electricity industry is Babcock Engineering, who have recently demerged from FKI. They have announced an order for a £20m aircraft wind tunnel.

The industrial news is not all positive, however. Anderson Strathclyde, who are changing their name to Anderson Group, have announced the closure of their East Kilbride plant, although the possibility exists for a management buyout. Job losses are also expected at the firm's Motherwell and Bridgeton, Glasgow plants. The latter is also thought to be under threat of closure. Lower orders from British Coal and the requirement for greater profitability from Anderson's parent, the South African group Charter Consolidated, are the motivating factors.

After a long period of uncertainty, the National Engineering Laboratory (NEL) at last faces a period of stability. Immediately before his departure from the DTI, Lord Young authorised the conversion of the NEL to agency status within the civil service. The ostensible aim is that this is a step towards privatisation, to be attained when the NEL achieves financial viability. However, it is stated government policy that agency status is not a precursor of privatisation. This solution had previously been advocated by the NEL's unions, though the eventual outcome will probably depend on the direction taken by the new minister, Nicholas Ridley.

ELECTRICAL AND ELECTRONIC ENGINEERING



The major item in the company sector has been the decision by Wang to close its Stirling operation and transfer all of its European output to Limerick. The most important issues which arise from the Wang decision are clearly those raised in the press at the time of the announcement, concerning the desirability of foreign ownership and, more immediately, whether the Wang experience is likely to presage further problems in the electronics sector, which currently employs over 45,000 in Scotland. It is correct that there should be concern over prospects for the sector in Scotland following the Wang episode, and that there should be some thought directed towards stricter controls on foreign ownership. But, with regard to the second question, as far as can be ascertained the retrenchment at Wang ocurred largely because of problems specific to that company, and its implications for the rest of the sector are likely to be limited. The company has not been the most successful dealer in the Personal Computer (PC) sector, the fastest growing segment of electronics, and has over-extended itself by a heavy commitment to advanced R&D especially in its attempts to develop voice-activated computers. Although this type of technology is now being investigated by other major companies, notably the highly successful Compaq (whose approach was discussed in the last issue if this Commentary), it is apparent that Wang were investing heavily in a process which is some way in advance of market needs, although there is clearly a posibility that Wang may achieve some success in this area in the future.

Wang were also slow in moving into the PC sector, the companies previous strengh being in departmental-sized word-processing systems (where sales have been lost to PCs which have the ability to work both as individual productivity tools and to interface with other users) and it suffered losses in the mid-eighties when it geared up for higher production volumes just as the industry suffered a drop in sales which has since been reversed. In consequence, Wang lost money in 1987, suffering a loss of $70Mn on a turnover of $3Bn, and sales for the first half of 1988 were static at $1.48Bn. Wang's problems have resulted in its losing sales to more successful manufacturers, particularly IBM, DEC and Compaq, all of whom have continued to grow, and prior to the Stirling decision the company had already announced a worldwide retrenchment plan which involved a reduction in its workforce from 31,000 to 28,500.

With regard to the future prospects of the industry in Scotland, there are some signs that the PC sector in particular may not see the same degree of growth as it has done over the last decade, but this should be seen in the context of an industry which has in recent years exhibited growth rates of up to 30% by value in a single year as the benefits of the PC have become apparent to the business sector worldwide. It seems fairly safe to predict that growth will not fall below 7-8% per annum over the medium term, and there are good possibilities that the European sector will exceed this. To date, European PC sales have varied on a country basis, with the strongest markets in Europe being in the UK, France and Germany. There are a number of countries (Italy, Spain, Holland and Sweden among them) where a large proportion of sales are still to home users, a situation comparable to that in the UK about 8-10 years ago) and where there is still the likelihood of significant penetration of the business sector. In addition there is a strong possibility that sales to countries on the European periphery and the Eastern Bloc will be made from European manufacturing sites. Scotland is in a very strong position to benefit from any of these developments because of the presence of most major PC companies, including those mentioned above as well as Amstrad, Apollo and Sun Microsystems. Scotland is also well placed to benefit from what is expected to be the next wave in the PC industry, the commercial diffusion of the workstation. These are small personal machines which have a processing capability roughly equal to that of the previous generation of mainframes and while applications until now have been limited to scientific and military areas, most of the major manufacturers have long range plans to move into the business market sometime in the 1990's. Overall therefore, the Wang decision should be viewed in context.

With regard to the overall question of foreign ownership, there is a lack of hard evidence to show that the issue at hand, employment stability, is less in foreign-owned plants. The most recent figures cover the decade before 1983 and show that here was a net contraction in employment in foreign-owned plants in the UK of 10%, compared to 32% in the indigenous sector(1)

The difficulties involved in generalising about the costs and benefits of the foreign sector are seen when the Wang decision is contrasted with the news from DEC in Ayr that it has been given the responsibility for the design and development of a new range of PCs, the DEC microVax 310, designed to help shift the company away from its established base in mid-range departmental machines and further penetrate the PC market (in itself further evidence that computer firms are willing to gamble on growth in the PC sector). Significantly, this is the first time that DEC has allowed any product development activities to be performed outside of the USA, as cheering a piece of news as the Wang news was dispiriting. The Commentary has noted many times the status of foreign-owned electronics plants in Scotland especialy the absence of R&D and marketing facilities.It is probable that the decision to devolve responsibility to Ayr has arisen from a number of factors, principally the fact that most of the new range will be sold in Europe so that shorter lead times are possible. Worries over local content after the 1992 market liberalisation programme comes into force may also have been involved, but one vital background factor is probably simply the age of the plant. There is clearly a greater likelihood of the above type of facilities being located in Scotland as plants mature and the subsidiary develops. The importance of this finding is that, given sufficient time, there is a possibility that the local impact of foreign-owned plants will increase. In addition, where greater autonomy is devolved to the local operation, the level of employment stability will probably also increase as the importance of the operation to the parent rises. While the Wang decision therefore does illustrate the costs of foreign-ownership. it is not sensible to evaluate on the basis of one example. Decisions like those taken by DEC can equally well be used to illustrate the converse and, in addition, also point out that the benefits may take some time to filter down.

Elsewhere in the company sector there was the confirmation by Shin-Etsu that they are to proceed with the second phase of their wafer fabrication plant at Livingston, a decision whhich will add a further 100 jobs to the 100 already in prospect, and there was also the announcement by Apricot in Glenrothes that they are to move their warehousing and distribution centre to Glenrothes from the West Midlands, adding 30 jobs to the 250 already involved in manufacturing.

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(1) Stopford, J., and Turner,L. (1985) Britain and the Multinationals, Wiley, Chichester.

CHEMICALS AND MAN MADE FIBRES

The latest Scottish Index of Production and Construction shows an increase of 3% in the output of the chemicals and man-made fibres sector in the first quarter of 1989 to 103, compared with the previous quarter. However this figure is 5% down on the same quarter last year. Comparing the latest four quarters with the preceding four quarters shows a drop of 1% which is contrary to the same period when viewed for the UK as a whole which experienced a growth in output of 5%. This shows that there is a continuation in the trend, as highlighted in last quarter's Commentary, for the UK as a whole to outperform Scotland in this sector.

Table 1 Scottish Chambers Business Survey
Chemicals and Man Made Fibres

	% Balance	
	Aug 1989	March 1989
Balance of Optimism	0%	5%
Trend in Orders	52%	46%
Trend in Sales	52%	46%
Trend in Employment	37%	41%

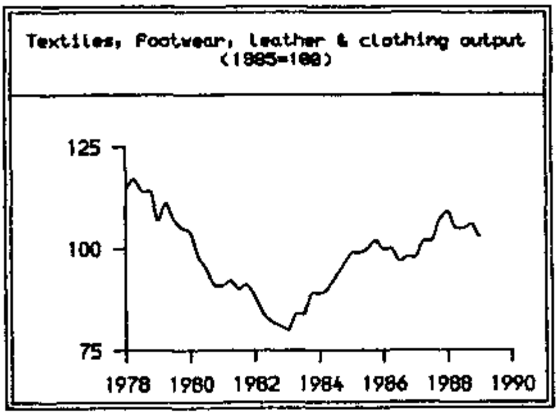
The current Scottish Chambers' Business Survey (SCBS) shows that the balance of optimism is unchanged with 100% of respondents being no more or less optimistic about the general business situation in their industry than they were 3 months ago. Fifty-two per cent of respondents experienced an increase in new orders and in sales with the remaining 48% showing no change in the levels of sales or new orders. The chemicals and man made fibres sector exhibited no serious negative factors in this SCBS and whilst it is true to say that 20% of respondents are running down their stocks of finished goods and of raw materials 90% of respondent firms foresee an increase in the next three months in their level of sales. Three quarters of this future increase is expected to come from export sales; indeed 39% of respondents had an increase in export sales in the last three months. Scottish and rest of UK sales in the last three months were up for 11% and 19% of respondent firms respectively.

This encouraging scenario is reflected in the fact that of the firms responding 37% saw an actual increase in their employment requirements with 41% expecting an increase in their total employment requirements over the next three months. The residual firms responding all exhibit no change in their employment requirements. The 37% increase in employment is equally divided between the sexes, however, the expected trend is for the increasing requirements to be met predominantly by a rise in female employment.

The current high and increasing interest rates are not having a noticable effect on investment in this sector, with 100% of respondents indicating no change in their investment intentions.

Comparing this SCBS with the previous one shows that whilst there is a reduction in the balance of optimism (down 5%) there is a small increase in the trends for new orders and sales (up 6%). This coupled with the fact that 90% of respondents expect sales to increase in the next three months and the consistent increase in employment (41%), indicate that the Scottish Chemicals and Man Made Fibres sector is in a healthy position.

TEXTILES, FOOTWEAR, LEATHER & CLOTHING



The Index of Production figures for textiles, footwear, leather and clothing show a fall of 2.8% for the first quarter of 1989 from the last quarter of 1988. The new index now stands at 103 down from 106. The average for the year of 1988 was also 106. The UK index for the first quarter of 1989 has fallen from 102 to 100 the average for the UK over 1988 being 102.

The Scottish Chambers' Business Survey does not look promising for textiles with a balance of 48% of respondents less optimistic about the general business situation than 3 months ago. The trend in the volume of new orders is downwards with a net 36% of firms reporting this. All classes of orders appear to be suffering, i.e. Scottish orders as well as those from the rest of the UK and exports. This is expected to continue with a balance of 47% of firms noting that they expect orders to continue to fall. Sales too, appear unhealthy with a net 34% of responding firms showing a downward trend. Like orders, all classes of sales show the same trend. This too is expected to continue. All of the respondents noted orders/sales as the area most likely to limit output over the next 3 months.

Employment trends are also down with a net 33% of respondents decreasing employment over the last 3 months. A balance of 25% of firms expect this to continue. Investment decisions have been revised downwards for plant/equipment for a balance of 14% of firms.

The latest statistics from the Apparel, Knitting and Textiles Alliance, show that the level of employment in the industry in the UK has fallen by 20,000 to 483,000 in the year to the end of March. Imports have increased by 6%. It is not surprising, therefore, to find many firms showing poor pre-tax profits as well as implementing short time working and redundancies.

Dawson International is one such firm. Pre-tax profits have fallen 8% to March 31st, down from £47.01m to £43.05m. 160 redundancies have also been announced at Todd and Duncan's cashmere processing plant at Kinross in Fife. The mild winter, rising raw material costs which have forced jumper prices to rise 50%, supply problems and the strong pound, have all contributed to the problem. The plant went on to short-time working but then redundancies were made. Two other Dawson factories at Hawick have also gone on to short-time working.

Another firm showing poor pre-tax profit figures is Walter Alexander. A drop of two- thirds has taken the pre-tax profit level of this conglomerate down to £2.4m. High interest rates and the mild winter as well as the failure of the US division have been given as the reason for the bad result.

Short-time working and lay-offs is unfortunately a common theme in the textile industry at present. Lyle and Scott may make 150 workers redundant. The 600 workers at their three factories have been on a four-day week and the choice now facing them is to accept either a three-day week or the redundancies. Order books are 15% below last year's level because knitwear has not been a popular fashion this year. It is estimated that, in general, over 400 Scottish jobs have been lost as the result of numbers of small companies collapsing. There has also been increased short-time working.

Coats Viyella and Courtaulds have both suffered substantial factory closures and redundancy programmes. In addition to this 60 workers at Andrew Stewart Woollens in Jedburgh have also been notified of redundancy. The receiver was appointed earlier this year when the company lost orders as a result of closure of state shops in the Soviet union. No new buyer was found, leading to the closure of the factory.

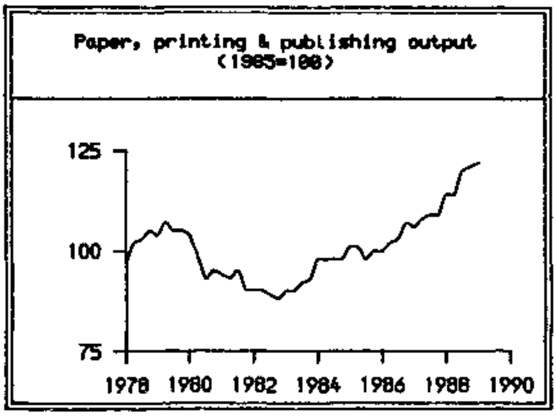
One bright spot has been the recently announced Soviet order for tights from Cosy Legs in East Kilbride. The order worth £3m is likely to result in 100 extra staff.

Coats Viyella's £395m bid for Tootal has been referred to the Monopolies and Mergers Commission. This sets back their plans to expand internationally to gain a foothold in the East-Asian market. The Director General of Fair Trading states that the merger may be anti-competitive. If cleared, Coats and Tootal will command 42% of the £87m UK market for industrial thread and 70% of the £8.5m domestic thread market.

One of the reasons given for the poor performance of many of the knitwear firms has been the recent trend away from knitted items of clothing. It is expected that this trend will give way to one which promotes knitted fashions. The National Wool Textile Export Corporation predict that the value of exports will rise from £613m to £700m in the next year. This will be helped if the pound remains in a weaker position against the dollar, the strong pound having lost many firms export sales.

PAPER, PRINTING AND PUBLISHING

The Index of Production statistics for the paper, printing and publishing sector of the Scottish economy shows a marginal increase for the first quarter of 1989. The index is now 122 compared with 121 in the last quarter of 1988. The figure for Scotland for the year of 1988 was 117, an increase in 1989 of 4.3%. The UK index figure for the first quarter of 1989 is 131 - 9% higher than that for Scotland and 3% higher than for the last quarter of 1988. The UK figure for 1988 was 125.



The Scottish Chamber's Business Survey has shown that a balance of 58% of respondents were less optimistic about business than in the previous 3 months. Not unconnected with this is that a net 15% of firms have experienced a fall in new orders over the last 3 months especially from the rest of the UK. A balance of 5% thought that the trend over the next 3 months will be one of falling orders. Sales are also poor with a net 5% of responding firms saying that sales have fallen over the last period. Exports to the rest of the UK and abroad did particularly badly. This situation, however, is not expected to last with a balance of 17% of respondents expecting sales to rise, especially Scottish sales and exports abroad.

The employment trend shows that a net 1% of firms' total employment rose, the balance of respondents showing an increase in male employment was 8%. The expected trend is less optimistic with a net 11% of firms expecting total employment to fall.

Investment intentions in the sector show a balance of 20% of firms have revised investment upwards for plant and equipment. This could reflect that while orders are expected to drop, sales are hoped to increase.

July brought the opening of the £215m Caledonian Paper Mill at Irvine's greenfield site. This represents the largest single inward investment to Scotland. 400 jobs have been created as well as 450 in ancillary services such as forestry and transport. The mill is a result of the Finnish owners decision to take advantage of the Forestry Commission's sitka spruce plantations likely to be a good source of raw material for the foreseeable future. The mill will use 70,000 tonnes of spruce each year and its operation should reduce the UK balance of payments deficit by approximately £80m per annum since it will produce lightweight coated paper and will be the only source of this in Britain.

Scott and Robertson, the Scottish packaging firm has merged with its largest UK competitor. The workforce of over 2,000 will be managed from Greenock. £44m is being paid for Alida, makers of polythene packaging for supermarkets and food manufacturers. Scott and Robertson is now the largest UK company in its field putting it into a competitive position for 1992.

W & R Chambers of Edinburgh, the oldest independent publishing company in Scotland has been the subject of a £2.4m takeover by the French publishing combine Groupe de la Cite' SA. It is thought the deal will bring expansion and increased investment to Edinburgh and it has been assured that Chambers will function as an autonomous unit within the enlarged international group.

The Canadian paper manufacturing company Abitibi-Price is to take over the building of the £140m newsprint mill at the site of the British Steel mill which closed in 1980 at Gartcosh. It is expected to produce 200,000 tonnes of newsprint a year and should employ over 200 people. A £75m loan has been secured by the European Investment Bank.

William Sommerville and Son, the Scottish paper group recently acquired by James River of America, has shown a sharp fall in pre-tax profits for the year to May 31st with a fall from £866,000 to £577,000. Poor trade results alongside an extensive capital expenditure programme are said to be the cause of the poor result. No final dividend has been paid.

TRANSPORT

Rail

The proceedings of a conference on Scotland and the Channel Tunnel(1) have been published recently and some interesting points regarding the potential economic impact of the project have begun to emerge. Probably the most important point is that the projected macroeconomic impact, insofar as it is possible to forecast accurately, is expected to be relatively limited in Scotland.

With regard to overall impact, when the tunnel opens in 1993, there appears to be little prospect of greatly increased volumes of either passenger or freight traffic from Scotland to the Continent. Air access will continue to appeal to businessmen because of of the much shorter travel times and availability of direct services to the major industrial and commercial centres in Europe, and the major impact in the tourist sector will be to reduce journey times to London, already the UK's major visitor centre and which will continue to have a considerable array of attractions. Indeed, a report by PIEDA which was discussed at the Conference suggested that, especially if services through London to Europe are arranged, some English visitors may be deflected away from Scotland to the Continent for short breaks, although conversely of course through trains to Scotland will encourage visits to Scotland to some extent. However, whichever arrangements eventually result, the new Kings Cross International terminal will be at the centre of events.

The most important impacts will, however, occur in the freight distribution sector. The PIEDA study suggests that only minor diversions of road haulage to the Tunnel are likely, because the potential for cost reduction appears limited. Typical savings suggested are a 1.5% reduction (compared to present levels) on a journey from Glasgow-Rome and up to 2.5% Glasgow-Cologne. Scotland is in fact expected to benefit proportionately less than regions situated closer to the Tunnel because journey times to the Tunnel will be unchanged. PIEDA suggest for example that costs on a journey from London-Rome will fall by about 2% and by 4.3% London-Cologne. The freight diversion which does occur will mainly be at the expense of the Channel ports, while others such as Hull will continue to have advantages for some freight journeys.

The greatest impact will come from the diversion of rail-ferry combinations onto the Tunnel, where journey times will be dramatically reduced. Peter Woods of PIEDA estimates that, for example, delivery times from Glasgow-Frankfurt will fall from the present 74 hours (using road-ferry combinations) to about 32 hours. It is here that the most significant oppurtunities for Scottish industry present themselves since, if used in conjunction with practices such as just-in-time manufacturing, there is the possibility of next-day delivery to the heart of Europe. The corporate response presently appears to be wanting however. Allan McKinnon of Heriot-Watt presented some evidence in his contribution that the Tunnel was presently "over the planning horizon" of many companies in Scotland.

While finding it difficult to predict the macro impact of the Tunnel, the PIEDA study estimated that only about 1500 jobs in Scotland would be lost or gained due to the Tunnel, although it was emphasised that this estimate was essentially static, with the major unknown being the response of Scottish industry. Potentially much larger gains could accrue if the appropriate actions were to be taken. Future contributions in this section will comment further on the opportunities which the Tunnel presents for Scotland and on the British governments strategy for the Tunnel.

Air

At the time of writing, the Transport Secretary has announced a review of Scottish Lowlands Airport policy which will cover Prestwick's position as the sole transatlantic Gateway ,the subject of a fuller analysis elsewhere in this Commentary. Prompted by the Air 2000's court victory which the government has decided not to contest, the company is presently free to operate flights from Glasgow to North America and it would therefore seem extremely unlikely that others could now be prevented from doing so. The prospects for Translantic services from Prestwick appear therefore to be extremely limited, although no new licences are likely to be granted before the review is completed in January. However, prospects of a network of flights from Glasgow now appear to be very good and it is likely that United Airlines will be able to fulfil its plans of making Glasgow its European HQ.

In addition, while nothing is certain at present, if it is indeed the case that the review comes out in favour of transatlantic flight from Glasgow, two recent announcements may help to point the way for a more secure future role for Prestwick. The freight company TNT has recently decided to make Prestwick its European distribution base for freight services, explicitly preferring Prestwick over both Glasgow and Edinburgh because of its better customs facilities, room for expansion and proximity of the British Aerospace factory. The company operates BAe craft and was tempted by the promise of having a service facility on its doorstep. The TNT decision may in fact point the way to Prestwick's development as a specialised freight centre, something to which the Review should address itself. Similarly, the recently announced possibility of the CAA upgrading the air traffic control centre at Prestwick should not be affected by the Gateway question, so that there is a possibility of reducing the adverse impact of transferring transatlantic status to Glasgow. The most important aspect is that BAA have already indicated that there is no reason to suppose that the runway will close whatever the findings of the review, therefore guaranteeing that Prestwick will continue to be able to operate its current freight, military, training and traffic control aspects.

Sea

Following the decision to retain Cal- Mac under public ownership, there is now a worry over whether some of the compant's most profitable routes, particularly Gourock-Dunoon and Rothesay-Wemyss Bay, will be hived off to private operators, leaving the company to operate the heavily subsidised routes further North. The Chief Executive has already indicated his opposition to this posssibility and pointed out that the operation as a whole has managed to increase both passengers (10%) and vehicle (12%) in the last financial year. The new Cal-Mac board is expected to meet for the first time later this year.

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(1) The Significance of the Channel Tunnel for Scotland", Centre for Urban & Regional Research, University of Glasgow.

Services

FINANCIAL SECTOR

is a long held belief of this column that financial institutions are largely run for the benefit of their managers. We have long expounded the view that the investment trust discount could be greatly reduced if investment management contracts were freely tradeable and articles of association allowed for periodic reviews of the existence of a trust so that trusts that had outlived their usefulness could be more easily disposed of, measures that are generally resisted as inimical to managers' interests. It is therefore of interest to see possible evidence of this phenomenon, at heart a conflict between shareholders and policyholders interests, at work in other areas of the financial sector, particularly the decision by F S Assurance to demutalise and merge with the Britannia Building Society.

As a background to this discussion it is useful to note that assurance companies, when setting the premiums on policies, generally make conservative assumptions about future earnings, morality rates and operating expenses so as to leave a margin for solvency purposes between the expected value of investment returns and the return built into the policy. This margin will normally lead to a revenue surplus, an excess of income over outgoings, and it is this surplus together with capital surpluses which arise when the asset valuation in the balance sheet is below the realisation price on the market, that is used to pay bonuses to policyholders. As a mutual, FS Assurance has no shareholders to share in any surplus produced by the company. It all accrues to the policyholders. By the same token FS Assurance has no risk capital with which to fund the generation of new business. Any such expenses must come out of the surplus. Questions must always arise whether existing policyholders benefit from the acquisition of new business, but it is accepted that the acquisition of new policyholders is a normal part of assurance society business and indeed that it will result in economies of scale and operation. In general, the larger the life office the lower the expenses to policyholders. However, the acquisition of new business, particularly annual premium business which provides a stream of income into the future, may result in premiums in the first year or two which are insufficient to cover both the value of new liabilities incurred and to meet the expenses involved, so that the surplus available for distribution is cut. For companies with substantial reserves there is little problem but in the absence of such reserves the bonus distribution must be reduced to avoid the risk of insolvency. However, a cut in bonus, in isolation from the rest of the industry, would lead to a dramatic loss of business.

Faced with just such problems, management expenses have been calculated to be more than 50% of regular premium income in 1988, the management of FS Assurance looked for a way out of the dilemma and opted for demutualisation and merger. By such means new equity could be brought into the business so that expansion and growth could continue. This is clearly in the best interests of the managers since it guarantees them a continued livelihood but is it in the best interests of the policyholders? Would they be better off with a closed fund which made no further sales but simply received premiums due and paid off liabilities as they arose? The benefit of a closed fund is that staff can be drastically cut, indeed the fund could be transferred to a low cost company, and the fund does not have to bear the cost of acquiring new business. The cost of such a scheme lies in staff redundancy costs, both monetary and otherwise, and the loss of an asset that has the skills and expertise to sell and manage new business. The exact staff costs, of course, are unknown as is the exact value of future assets and liabilities. If future asset values are conservatively estimated and potential staff costs are low, the surplus from the existing fund could be large and policyholders benefit from closing the fund. If, on the other hand, the potential surplus is very small there may be benefits from selling the firm as a going concern so that policyholders benefit to the extent of the receipts from the sale of their firm.

The policyholder is not normally in receipt of enough information to resolve the dilemma. He must rely on the managers who should have the information necessary to formulate an optimal strategy. But managers have an incentive to prevent the closure of the fund and recommend merger, and faced with a choice of valuation methods may select techniques that favour their case. There is nothing fraudulent or dishonest about such a process. In a world of uncertainty it is only natural that managers should select valuation methods that most fit their preconceptions and beliefs.

What is of particular interest in the FS Assurance proposals is that a policyholder and former member of the management team should take issue with the methods being used and the values calculated. He clearly cannot be privy to the latest detailed projections and valuations of the fund, but he is in a position to evaluate more critically the assumptions on which the proposed merger has been based and to look at them perhaps in a more clear-sighted fashion than the existing management may find possible.

The policyholders of FS Assurance supported the management's view, a reflection presumably of satisfaction with the management and its position, but given the asymmetric availability of information and consequent difficulties of policyholders, the FS Assurance demutualisation does raise fundamental issues with regard to policyholders' rights and suggests that a totally independent body should perhaps be involved in any such proposals. Demutualisation is not bad in itself, but it is crucial that we evolve mechanisms which protect policyholders in a situation where information is limited and largely confined to a group with possibly very different interests. The existence of an independent actuary is unlikely to be enough. Policyholders need a body actively fighting for their interests and determined to make sure that information, including details of contracts, valuations and assumptions, are available for public discussion. The appointment of professional advisers to the policyholders working for a proportion of the improved terms they can secure should perhaps be an automatic feature of any proposed demutualisation. The controversy at FS does suggest that such safeguards are necessary.

The announcement that another major independent Scottish stockbroker is to be sold to a financial services conglomerate is hardly surprising. It is a result of a deliberate long standing policy of the Stock Exchange which has since 1973 been centralising on London with the consequent disappearance of the provincial trading floors. The Stock Exchange took the view that improvements in communications were such that information was now widely disseminated so that the advantages of regional markets accessing regional pools of information, particularly for small regional companies, were outweighed by the economies of scale from unified markets. The subsequent difficulties of the market in providing finance for small companies led to the introduction of the USM which greatly improved the access of small companies to the Stock Exchange, but made no attempt to revitalise the regional exchanges. In contrast, the French with the introduction of the Second Marche encouraged the regional exchanges and indeed have regenerated regionally based equity trading. Less than half of early Second Marche quotations were centred in Paris. The moral is clear. There are no compelling reasons for the decline of regional markets and a role still exists for regional stocks and exchanges. In such an environment regional stockbrokers could flourish. The resurgence that occurred with the Second Marche suggests that it is not too late for a change in policy. Small, specialised, regional companies would benefit from local support both from investors and stockbrokers. Information is not perfectly disseminated and regional loyalty and support should not be underestimated. Scottish Financial Enterprise should be campaigning actively for a change in policy and encouraging its members to bring forward proposals for a small automated, regional exchange.

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1. Financial Advisor, August 3rd and August 10th provides a clear statement of the areas of contention and conflict of interest.

DISTRIBUTIVE TRADES

Retailing

Retail distribution sales in the Scottish Chambers Business Survey for the third quarter of 1989 were strong with a balance of 54% of respondents noting increases in their total volume. This is expected to continue with a net 45% of firms expecting sales to continue to rise. Despite this only a balance of 8% of companies are more optimistic about the general trading situation than three months ago.

Employment shows a mixed response with a net 6% of responding companies showing increased employment figures. The expected trend over the short term future is for total employment and part-time employment to continue to rise but a balance of 17% of firms expect full-time employment to fall.

A balance of 33% of respondents have revised their investment intentions upwards which could reflect the fact that a net 14% state that insufficient floorspace is most likely to limit sales over the next 3 months.

Table 2 Geographical response to August SCBS - SCBS Retailing

	Balance of respondents in:			
	G %	E %	D %	A %
Overall confidence	+ 4	+ 1	+45	+21
Actual sales	+37	+43	+44	+65
Expected sales	+43	+40	+31	+41
Actual employment	- 4	+ 7	+45	+24
Expected employment	+ 7	-10	-44	- 8
Investment intentions	+22	+ 7	+45	+63

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

Table 2 shows the geographical breakdown of responses to the SCBS survey from the retailing sector. All areas were more optimistic about trade than they had been previously, Dundee being particularly confident. Actual sales have also been healthy for each area and the trend is expected to continue.

With the exception of Glasgow, employment has increased. A net 7%, 45% and 24% of firms from Edinburgh, Dundee and Aberdeen respectively have shown an upwards employment trend. Glasgow firms expect employment to rise over the next 3 months (net 7%) while the other areas' firms expect it to fall. This is most notable in the case of Dundee which has a balance of 44% of firms expecting employment to take a downwards move. Care should be exercised in the interpretation of these results since a net 26% of Dundee firms in the last survey expected employment to fall yet a balance of 45% of Dundee respondents this quarter showed increased employment.

All areas show positive balances of firms revising investment intentions upwards. This is most marked in the cases of Dundee and Aberdeen with 45% and 63% of firms increasing investment.

Credit facilities has been given as the major factor most likely to limit sales in the short future by Edinburgh, Aberdeen and Dundee retailers. As with wholesaling this is likely to be a reflection of the governments anti-inflationary policies.

Goldberg, the Glasgow retail outfitter has suffered a fall in pre-tax profits of £2.92m to March 25th. The final dividend has been cut from 4.18p to 1.55p and it is expected that this will deter a takeover bid by Russell Goward whose Charterhall Group holds a 29.99% stake in Goldbergs.

The government squeeze on credit has been blamed for Goldberg's poor performance alongside the mild winter, an early Easter and increased competition from English stores resulting in competitive price cuts. Plans to improve the situation include creating a distinctive own label set of products which will sell at considerably higher margins. Despite this however, it has been noted that a break-up bid is likely.

A merger between Wm Low the Dundee based supermarket group and Budgens an English store chain has collapsed. The biggest shareholder in each of the companies, Sir Ron Brierley, is said to be annoyed by the lack of information of the reasons for the breakdown and his UK company IEP Securities is taking the matter up with the Takeover Panel and the Stock Exchange.

Wholesaling

The latest Scottish Chambers Business survey for wholesaling shows that a balance of 2% of respondents were less optimistic about the general trading situation than 3 months ago. This is surprising given that a net 68% of firms experienced an increase in the volume of sales over the last 3 months and a balance of 33% expect this to continue in the short term future.

The employment trend is upwards. A balance of 12% of firms reported increased employment with a net 8% showing increased part-time employment. Only a 2% balance of firms responded that full-time employment was rising. The expected trend for the next 3 months is for total and part-time employment to increase but full-time employment to fall.

Credit facilities and stock shortages were given as the factors most likely to limit sales over the next 3 months. With reference to credit facilities, this is likely to be on expectation that the governments' credit squeeze will take effect.

Table 1 Geographical response to August SCBS - SCBS wholesaling

	Balance of respondents in :- G %	E %	D %	A %
Overall confidence	-16	+ 8	0	+68
Actual sales	+48	+95	+ 7	+69
Expected sales	+18	+12	+ 7	+86
Actual employment	+ 5	+27	-65	+26
Expected employment	-14	0	0	+14
Investment intentions	+10	0	0	+39

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

Table 1 shows the geographical pattern of Augusts' SCBS wholesale responses. All areas showed good sales performances with Edinburgh proving to be exceptional with a balance of 95% of firms having increased their total sales volume. All areas are confident that this upward trend in sales will continue though Aberdeen in particular appears particularly optimistic with a balance of 86% of firms expecting sales to continue to grow over the short term future. Aberdeen also has a net 68% of firms feeling more optimistic about business than in the previous 3 months, while a balance of 16% of Glasgow respondents were less confident.

With the exception of Dundee which had a net 65% of firms reducing employment, all areas showed an upwards employment trend. The Glasgow trend for the next 3 months is less optimistic. A balance of 14% of Glasgow respondents expect employment to fall. Edinburgh and Dundee firms all expected job numbers to remain unaltered and a net 14% of Aberdeen respondents expect employment figures to rise. Aberdeen's general optimism is shown by a balance of 39% of SCBS respondents revising their investment intentions upwards.

Christian Salveson, the Edinburgh based distribution group has achieved a pre-tax profit increase of 12.3% taking profits to £52.4m despite a number of setbacks. One serious problem was the "dramatic reduction in intervention storage" by the Common Market in its frozen food stores which has resulted in a newly acquired subsidiary in Holland losing a substantial part of its business. In addition, the UK food hygiene scares have helped to partially offset gains made in other parts of the distribution division. Another problem was the uncertainty in the foreign exchange markets which lost £1 million from profits.

Despite the setbacks, the company has performed well and recently announced a new acquisition in Singapore which will improve Salveson's position in the world power hire business.

The Labour Market

THE LABOUR MARKET

In line with previous Commentaries discussion of recent developments in the "external" labour market is centred around the three states of labour market to which individuals may belong: employment, unemployment and non-participation. Where data permit analysis is made of developments in the levels of labour market stocks as well as changes in gross inflows to, and outflows from, the stock.

Employment: stocks and flows

Recent data on employment in Scotland are presented in Tables 1 and 2. Since no seasonal adjustment has been carried out, interpretation of the tables needs to be undertaken with caution, although short-run fluctuations are overcome by considering annual changes.

The year March to 1989 has seen a rise of 26,000 in the number of employees in employment, of which only 5,000 were males. Increased female employment of 21,000 is consequently primarily responsible for the change in total employment. This pattern broadly reflects the longer term trends noted in previous Commentaries, although there are brighter signs in so far as the increase in part-time female employment constituted only 28.5% of the total change in female employment and male employment did actually rise.

Table 1 also summarises recent developments in the industrial composition of employment. Overall employment over the year to March 1989 rose in each of the 4 sectors in the Table. Employment rose by: 3,000 in the Production and Construction industries; by 1,000 in the Production industries; by 5,000 in the Manufacturing industries and in the service industries there was a rise in total employment of about 22,000. These figures suggest that the trend whereby male employment was being shed from heavy industries whilst Services took on additional female employees who were predominantly working part-time seems to be changing slightly. Certainly, the data are compatible with a degree of revival in the male-dominated manufacturing sector and in the employment of full-time female employees in the service industries.

The increase in overall service sector employment in fact reflects the net outcome of fairly significant, and opposite, gross changes. Thus, whilst employment in education, health and other services increased by some 24,000 that in public administration and defence actually fell by 15,000. Employment in banking, insurance and finance increased by 14,000, and all other changes were comparatively minor. These were: -3,000 in transport and communication; +2,000 in retail distribution; and -1,000 in wholesale, distribution, hotels and catering. In the production industries the major employment gains were registered by metal goods, engineering and vehicles (+8,000) and by construction (+3,000). The most significant employment losses occurred in "other manufacturing" (-4,000) and in energy and water supply (-3,000).

As far as the Scottish labour market as a whole is concerned, recent employment estimates are certainly rather more compatible with an optimistic perspective. Total employment has been growing noticeably (rather than being flat) and full-time equivalent employment has been growing proportionately more noticeably (instead of declining). There are few grounds for unbridled optimism, however. First, to the extent that employment has been under-recorded, productivity gains have, of course, been over-recorded. Secondly, total employees in employment still remains 8.2% below its 1979 level despite an increase of 55,000 (16.6%) in part-time female employment. Full-time male employment is some 190,000 (-15.8%) below its 1979 level and full-time female employment is around 38,000 below its 1979 level (-6.7%). Nonetheless, welcome improvements in the performance of the Scottish labour market are apparent at least in terms of job provision.

Unemployment: stocks and flows

Recent data on the seasonally adjusted unemployment stock are presented in Table 3. 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

Table 1 Employees in employment in Scotland: industry aggregates (000's)
(Figures in parentheses reflect revisions due to 1988 LFS)

	Male	Female All	Female Part-time	Total	Production & construc. industries	Production industries	Manufacturing industries	Services industries
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1986 Sept	1,020	866	367	1,886	595	460	409	1,261
Dec	1,006	868	375	1,874	586	451	404	1,259
1987 Mar	997	865	375	1,862	578	442	396	1,254
June	1,006	880	379	1,886	579	441	395	1,277
	(1,010)	(882)		(1,892)				
Sept	1,001	878	383	1,879	577	437	392	1,273
	(1,011)	(884)	(381)	(1,895)	(584)	(442)	(397)	(1,283)
Dec	996	881	389	1,877	572	432	388	1,278
	(1,012)	(891)	(385)	(1,903)	(582)	(440)	(395)	(1,294)
1988 Mar	989	879	387	1,868	570	429	386	1,271
	(1,010)	(893)	(381)	(1,903)	(584)	(439)	(396)	(1,292)
June	996	892	389	1,888	568	427	385	1,292
	(1,020)	(908)	(383)	(1,928)	(584)	(439)	(396)	(1,316)
Sept	992	892	389	1,884	569	427	387	1,287
	(1,022)	(910)	(382)	(1,932)	(588)	(443)	(400)	(1,315)
Dec	(1,020)	(923)	(396)	(1,942)	(589)	(443)	(402)	(1,327)
1989 Mar	(1,015)	(914)	(387)	(1,929)	(587)	(440)	(401)	(1,314)

Source: Department of Employment Gazette, September 1989 and earlier issues.

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

SIC 1980		Agric./ forestry/ fishing 0	Energy and water supply 1	Metal Manuf. & chemicals 2	Met.goods, Eng. & vehicles 3	Other Manuf. 4	Constr- uction 5	W/sale Dist hotels & catering 61-63 66-67	Retail distrib 64/65	T/sport & communi- cation 7	Banking, insurance & finance 8	Public admin & defence 91-92	Educ. health & oth. ser 93-99
							Scotland						
1979		48	72	82	258	265	155	197	194	135	123	170	403
1983		37	68	55	195	194	134	188	183	119	140	171	416
1984	Mar	36	66	52	189	191	136	180	183	118	138	170	421
	June	35	65	53	189	192	136	193	186	115	141	170	425
	Sept	37	65	53	187	193	139	193	186	115	146	170	419
	Dec	33	65	53	188	192	138	187	196	114	146	169	422
1985	Mar	32	63	53	187	190	137	188	184	115	147	169	427
	June	34	60	52	188	191	136	195	185	115	146	170	432
	Sept	36	59	51	189	189	136	198	188	115	151	172	428
	Dec	31	58	50	186	187	135	191	193	113	150	171	433
1986	Mar	31	56	49	184	183	133	190	187	111	151	172	428
	June	31	53	48	182	181	134	199	186	110	155	175	435
	Sept	30	51	48	180	181	135	199	187	111	158	176	431
	Dec	29	47	47	178	179	135	190	191	108	159	176	436
1987	Mar	30	46	47	176	173	136	189	183	106	161	176	439
	June	30	45	46	177	172	135	198	185	108	165	177	444
	Sept	28 (28)	45 (45)	46 (46)	175 (177)	171 (173)	140 (142)	202 (203)	182 (183)	108 (109)	164 (166)	179 (180)	439 (442)
	Dec	27 (27)	44 (44)	46 (47)	173 (176)	169 (172)	140 (142)	194 (197)	191 (193)	106 (108)	166 (169)	179 (181)	442 (446)
1988	Mar	27 (27)	42 (43)	46 (47)	172 (177)	168 (172)	141 (144)	199 (202)	184 (186)	105 (107)	165 (169)	180 (183)	439 (445)
	June	28 (28)	42 (43)	45 (46)	173 (178)	167 (172)	141 (145)	208 (212)	185 (187)	105 (108)	169 (173)	181 (185)	444 (452)
	Sept	28 (28)	41 (42)	45 (47)	175 (181)	166 (172)	142 (145)	203 (207)	185 (188)	103 (106)	174 (179)	178 (184)	443 (451)
	Dec	(27)	(41)	(48)	(183)	(171)	(146)	(205)	(188)	(106)	(179)	(175)	(469)
1989	Mar	(27)	(40)	(48)	(185)	(168)	(147)	(201)	(188)	(104)	(183)	(168)	(469)
		0	-3	+1	+8	-4	+3	-1	+2	-3	+14	-15	+24

* Figures in parenthesis reflect revisions due to 1988 LFS.

Source: Department of Employment Gazette, August 1988

Table 3 Scotland - Unemployment - seasonally adjusted (excluding school leavers (000s) (Figures in parentheses reflect estimates on September 1988 basis - see text for details)

Date		Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate percentage of working population
1984		235.2	106.4	341.6			14.0
1985		243.6	109.3	353.0			14.2
1986		248.1	111.8	359.8			14.5
1986	Dec	242.6	104.8	347.4	1.2	1.1	14.0
1987	Oct	223.2	92.3	315.5	-4.8	-5.1	12.7
		(219.8)	(89.6)	(309.4)	(-4.2)	(-4.7)	(12.5)
	Nov	220.2	91.1	311.3	-4.2	-4.3	12.5
		(216.7)	(88.4)	(305.1)	(-4.3)	(4.0)	(12.3)
	Dec	218.2	90.5	308.7	-2.6	-4.2	12.4
		(214.5)	(87.8)	(302.3)	(2.8)	(-4.1)	(12.2)
1988	Jan	216.0	90.2	306.2	-2.5	-4.1	12.3
		(212.4)	(87.3)	(299.7)	(-2.6)	(-3.9)	(12.1)
	Feb	213.5	89.9	303.4	-2.8	-2.8	12.2
		(209.7)	(86.9)	(296.6)	(-3.1)	(-3.7)	(11.9)
	Mar	211.6	88.5	300.1	-3.3	-3.4	12.1
		(207.7)	(85.6)	(293.3)	(-3.3)	(-3.4)	(11.8)
	Apr	208.8	86.5	294.9	-5.2	-3.4	11.9
		(204.6)	(83.8)	(288.4)	(-4.9)	(-3.5)	(11.6)
	May	206.0	85.1	291.1	-3.8	-3.4	11.7
		(202.5)	(82.3)	(284.8)	(-3.6)	(-3.4)	(11.5)
	Jun	202.5	83.4	285.9	-5.2	-3.8	11.5
		(199.0)	(80.7)	(279.7)	(-5.1)	(-3.8)	(11.3)
	Jul	199.3	82.7	282.0	-3.9	-4.0	11.4
		(196.0)	(79.9)	(275.9)	(-3.8)	(-4.0)	(11.1)
	Aug	197.5	82.1	279.6	-2.4	-4.0	11.3
		(194.3)	(79.1)	(273.4)	(-2.5)	(-3.9)	(11.0)
	Sept	201.0	82.1	283.1	3.5	-2.8	11.4
		(194.2)	(78.1)	(272.3)	(-1.1)	(-3.5)	(11.0)
	Oct	(193.4)	(76.7)	(270.1)	(-2.2)	(-3.1)	(10.9)
	Nov	(191.0)	(75.5)	(266.5)	(-3.6)	(-3.1)	(10.7)
	Dec	(186.7)	(73.5)	(260.2)	(-6.3)	(-3.3)	(10.5)
1989	Jan	(184.0)	(72.6)	(256.6)	(-3.6)	(-3.2)	(10.3)
	Feb	(181.7)	(71.7)	(253.4)	(-3.2)	(-3.3)	(10.1)
	Mar	(180.2)	(70.3)	(250.5)	(-2.9)	(-3.6)	(10.0)
	Apr	(175.1)	(68.2)	(243.3)	(-7.2)	(-4.5)	(9.7)
	May	(172.8)	(66.7)	(239.5)	(-3.8)	(-4.5)	(9.7)
	Jun	(170.0)	(65.0)	(235.0)	(-4.5)	(-4.2)	(9.4)
	Jul(p)	(168.7)	(63.8)	(232.5)	(-2.5)	(-4.0)	(9.3)

Source: Employment Department Press Notices

(p) Provisional and subject to revision.

(r) Revised.

a job under the Employment Training Scheme. Under 18s are consequently not now entitled to claim benefit and so are excluded from the unemployment count. Table 3 presents a short time series of unemployment in the old as well as the new basis to facilitate comparison.

The seasonally adjusted level of unemployment in Scotland fell to around 232.5 thousand in July. This represented a decline in unemployment of 43.4 thousand (15.7%) over the year. The unemployment rate fell from 11.1% to 9.3% of the working population. Of this decline in unemployment 30.3 thousand were male and 16.1 thousand were female.

Whilst a fall in registered unemployment is generally to be welcomed, it is interesting to investigate the components of that change. The fact that the unemployment figures are a by-product of an administrative process implies that their interpretation is sometimes difficult. Put simply, where are the unemployed going? Until the recent Labour Force Survey (LFS) there was an apparent paradox of both male employment and unemployment falling simultaneously. However, over the year to March 1989 (the latest period for which employment data are available) male unemployment fell by some 27.5 thousand, whilst the number of male employees in employment rose by around 5,000. However, the rise in self-employment may well account for the residual.

Table 4 presents data on the inflows to and outflows from the stock of unemployment. These show that on a monthly basis there have been fairly large inflows and outflows. In July total inflows (unadjusted excluding school leavers) into unemployment reached 37.1 thousand and total outflow (unadjusted excluding school leavers) reached 33.5 thousand, leading to a net increase in unemployment in July of 3.6 thousand. (However as previously noted, for the month of July, unemployment has been provisionally estimated to fall by 2.5 thousand on a seasonally adjusted basis.)

Furthermore, monthly inflows continue to show a decline with respect to their counterparts of the same month in the previous year. However, the same has been true of outflows with respect to the previous year.

Table 5 presents data on the age and duration of unemployment as of July 13, 1989. The results are similar to those presented in a previous Commentary. Here around 24% of young males (under 25) have a duration of unemployment of more than a year. The figure increases to around 46% for those aged 25-54 and to 65% for over 55s. For all males, 43.3% have a duration of unemployment of more than a year. These figures do indicate slight improvements over the last year in aggregate male duration and those for most age categories (except the oldest).

Table 4: Unemployment flows – standardised, unadjusted: Scotland (000s)

Month ending	In-flow	Out-flow
1987 Oct	46.7	54.5
Nov	44.0	47.5
Dec	38.2	35.3
1988 Jan	43.0	34.6
Feb	39.8	48.2
Mar	35.6	46.1
Apr	38.3	44.6
May	32.5	45.8
Jun	35.5	44.2
Jul	43.0	41.5
Aug	34.2	40.1
Sep*	43.4	43.3
Oct	37.9	55.2
Nov	36.6	38.4
Dec	33.5	34.3
1989 Jan	32.2	26.9
Feb	33.1	40.7
Mar	31.7	39.0
Apr	30.5	38.9
May	27.3	38.6
Jun	27.9	35.5
Jul	37.1	33.5

* The September figures are biased by the postal strike.

Evidence for the UK is also available to suggest that the expansion of the government's Community Programme scheme has led to an increase in long term outflow rates of younger people but appears to be associated with a decrease in the outflow rates of older people. Thus there is the

Table 5 Unemployment age and duration: 13 July 1989

Duration of unemployment in weeks		Male 18–24	25–49	50 and over	All ages	Female 18–24	25–49	50 and over	All ages
2 or less		3,730	4,324	949	9,050	3,072	3,855	704	7,674
Over 2	& up to 4	4,293	3,687	689	8,714	3,101	1,963	255	5,350
4	8	5,090	5,644	1,123	11,884	2,761	2,578	415	5,776
8	13	4,120	5,518	1,186	10,835	1,946	2,444	447	4,848
13	26	8,858	11,813	2,779	23,467	4,117	5,419	1,082	10,621
26	52	10,666	15,224	3,963	29,876	4,638	6,733	1,482	12,866
52	104	6,802	12,886	4,090	23,786	2,472	3,971	1,685	8,130
104	156	2,395	6,312	2,914	11,628	938	1,363	1,118	3,419
156	208	1,065	4,289	2,522	7,876	544	868	894	2,306
208	260	706	3,437	2,441	6,584	300	575	783	1,658
Over 260		805	12,798	8,350	21,953	321	1,561	2,176	4,058
All		48,530	85,932	31,007	165,646	24,210	31,330	11,041	66,706

Source: Employment Gazette, September 1989

Table 6 Unfilled Vacancies at Jobcentres - Scotland Vacancies at Jobcentres (Thousands)

	Seasonally adjusted			Vacancies at Career Offices	
	Number	Change since prev. month	Average chge over 3 months ending	Unad-justed Total	Unad-justed
1988 Jan	19.6	-1.0	-0.3	16.8	0.5
Feb	19.5	-0.1	-0.5	17.0	0.5
Mar	19.8	0.3	-0.3	18.5	0.5
Apr	20.6	0.9	0.3	20.6	0.4
May	20.1	-0.5	0.2	21.3	0.7
Jun	19.6	-0.4	0.0	21.0	0.7
Jul	19.8	0.2	-0.3	21.2	0.6
Aug	20.0	0.2	0.0	20.7	0.6
Sep	20.0	0.0	0.1	21.8	0.6
Oct	20.6	0.6	0.3	22.0	0.4
Nov	20.0	-0.6	0.0	20.5	0.5
Dec	20.5	0.5	0.2	18.8	0.4
1989 Jan	19.9	-0.6	-0.2	17.0	0.5
Feb	19.7	-0.2	-0.1	17.2	0.5
Mar	19.7	0.0	-0.3	18.5	0.5
Apr	20.3	0.6	0.1	20.2	0.6
May	20.2	-0.1	0.2	21.5	0.7
Jun	21.9	1.7	0.7	23.3	1.0
Jul	21.7	-0.2	0.5	23.1	0.9

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

Source: Employment Department Press Notice

suggestion that some of the work undertaken by CP projects may be displacing work that would otherwise have been taken on by older people.

Vacancies: stocks and flows

Over the year since July 1989 unfilled vacancies at job centres in Scotland fluctuated between 19.8 and 21.9 thousand on a seasonally adjusted basis (Table 6). However, vacancies have generally been higher as compared to 1988. Indeed a trend increase has been discernible since the "trough" (at around 10.8 thousand) of 1981. However, the stability in the stock of unfilled vacancies conceals considerable activity in terms of gross inflows and outflows (Table 7). These were of a similar order of magnitude to the outstanding stock of vacancies in each month. Accordingly, during 1988 there were a total of over 240,000 vacancies at job centres, well over 80% 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, of course, employers may still find it difficult to recruit specific skills in particular locations).

Table 7: Vacancy flows at Jobcentres, standardised, seasonally adjusted
Scotland

Thousands of which:

Date	In-flow Level	In-flow Average change 3 months ended	Out-flow Level	Out-flow Average change 3 months ended	Placings Level	Placings Average change 3 months ended
1987 Oct	20.9	0.2	20.1	0.1	17.2	0.0
Nov	21.7	0.6	21.1	0.6	18.0	0.4
Dec	22.1	0.6	22.2	1.0	18.8	0.8
1988 Jan	20.5	-0.1	21.6	0.5	18.1	0.3
Feb	20.2	-0.5	20.6	-0.2	17.3	-0.2
Mar	20.6	-0.5	20.4	-0.6	17.1	-0.6
Apr	20.7	0.1	20.4	-0.4	17.3	-0.3
May	20.8	0.2	20.5	0.0	17.4	0.0
June	20.9	0.1	21.5	0.4	18.2	0.4
Jul	20.1	-0.2	19.8	-0.2	16.6	-0.2
Aug	20.9	0.0	20.7	0.1	17.5	0.0
Sep	21.2	0.1	20.7	-0.3	17.4	-0.3
Oct	21.0	0.3	21.0	0.4	17.6	0.3
Nov	20.9	0.0	21.5	0.3	18.5	0.3
Dec	21.9	0.3	21.1	0.1	18.0	0.2
1989 Jan	20.0	-0.3	20.7	-0.1	17.6	0.0
Feb	22.3	0.5	22.7	0.4	19.3	0.3
Mar	21.1	-0.3	21.3	0.1	18.0	0.0
Apr	21.2	0.4	20.8	0.0	17.6	0.0
May	21.3	-0.3	20.8	-0.6	17.6	-0.6
Jun	21.9	0.3	20.3	-0.3	17.2	-0.3
Jul(p)	21.8	0.2	21.8	0.3	18.3	0.2

Source: Department of Employment

Regional Review

It is a long and widely held belief that the fortunes of the UK labour market are not always experienced in Scotland. The previous section analysed the changes in Scottish employment patterns. The purpose of this regional review is to demonstrate that these labour market movements have not been uniformly witnessed throughout Scotland and to highlight the inter-regional variations which have occurred in the labour market over the past year. Intra-regional disparities are also considered.

In the Labour Market section the data used was typically adjusted for seasonal factors. Data availability necessitates that unadjusted figures be utilised in this section and this should be recognised when considering the tables which not only give the most recent statistics but also those of the previous quarter and month. Caution should also be exercised when considering tables which compare the current unemployment situation with that which prevailed last year. This is because the new regulations introduced in September 1988 which affects the eligibility of young people aged under 18 to claim unemployment - related benefits, mean that this grouping is excluded from the July 1989 count but included in that for July 1988. Consequently, the two sets of statistics are not directly comparable. However in the next issue of the Commentary it will be possible to get a clearer picture of the patterns annual changes.

Regional unemployment rates are calculated by expressing the number of unemployed as a percentage of the estimated total workforce which is the sum of unemployed claimants, employees in employment, self-employed, HM Forces and those on work-related government training programmes. However, there are no estimates below the regional level for the numbers of self-employed and hence intra-regional calculations are based on a more narrowly defined workforce which in fact only included employees and the unemployed. As a result, sub-Scottish unemployment rates are not consistent with that for Scotland overall.

Table 1 shows for each local authority region and Scotland as a whole, the unemployment rate, the numbers unemployed in July 1988 and 1989, and the change which has taken place over those twelve months. Quarterly and monthly changes are also shown. The usage of unadjusted unemployment data means it would be erroneous to interpret the magnitude and direction of these short-term changes as indicative of underlying or developing trends. They are however, useful for the purposes of drawing inter-regional comparisons.

A fall of 58,140 in the unadjusted total of the numbers unemployed in Scotland, has effected a further reduction in the unemployment rate which now stands at 9.3%. This compares well with both the 14.0% which prevailed in August last year and last quarter's 9.8%. The 20% reduction in total unemployment which occurred over the twelve months to July 1989 means that total unemployment stands at 232,352. There was also a reduction (of 5.4% of the total) in the quarterly figures. Although there was in fact an increase in the monthly totals with 4,161 more people unemployed in July compared with June, this is likely to be the result of seasonal factors since the seasonally adjusted level of unemployment in Scotland fell by 2,500 over the same period.

In the twelve months since July in addition, all Scottish regions witnessed declines in the numbers out of work but there are variations in the magnitude of change experienced by the regions. Of the mainland regions, in proportion terms, Grampian experienced the largest annual decline with unemployment in July 1989 25.7% less than in July the previous year. Highland region and Dumfries and Galloway also experienced substantial declines of 24.3% and 24.2% respectively. The average Scottish annual decline of 20% was also surpassed in Lothian (22.3%), Fife (20.7%) and the Borders (20.1%).

As was the case last quarter annual declines below the Scottish average were experienced in Tayside, Strathclyde and Central REgions with figures of 18.8%, 18.5% and 17.1% respectively. In the last issue of the Commentary, all three island regions witnessed below normal declines in their unemployment totals. However, the latest set of data shows a reversed trend, as can be seen from Table 1, the proportional decline in annual totals is in all cases in excess of Grampian's 25.7%

Table 1: Unemployment by region

	% rate Jul 89	Total Jul 89	Total July 88	Total Annual Change	% Change in Annual Totals	Total Apr 89	Total Quarterly Change	% Change in Quarterly Totals	Total Jun 89	Total Monthly Change	% Change in Monthly Totals
Borders	5.8	2,211	2,768	-557	-20.1	2,308	-97	-4.2	2,217	-6	-0.3
Central	10.8	11,273	13,604	-2,331	-17.1	12,089	-816	-6.7	11,116	+157	+1.4
Dumfries & Galloway	8.2	4,675	6,171	-1,496	-24.2	5,332	-657	-12.3	4,729	-54	-1.1
Fife	10.9	14,595	18,410	-3,815	-20.7	15,530	-935	-6.0	14,450	+145	+1.0
Grampian	5.4	12,473	16,795	-4,322	-25.7	13,672	-1,199	-8.8	12,204	+269	+2.2
Highland	8.8	7,813	10,320	-2,507	-24.3	9,300	-1,487	-16.0	8,131	-318	-3.9
Lothian	8.2	29,823	38,395	-8,572	-22.3	31,393	-1,570	-5.0	29,087	+736	+2.5
Strathclyde	12.9	130,719	160,487	-29,768	-18.5	136,134	-5,415	-4.0	127,703	+3,016	+2.4
Tayside	9.8	16,383	20,171	-3,788	-18.8	17.041	-658	-3.9	16,137	+246	+1.5
Orkney Islands	8.0	537	732	-195	-26.6	645	-108	-16.7	534	+3	+0.6
Shetland Islands	4.5	440	611	-171	-28.0	553	-113	-20.4	481	-41	-8.5
Western Islands	14.3	1,410	2,028	-618	-30.5	1,639	-229	-14.0	1,402	+8	+0.6
Scotland	9.3	232,352	290,492	-58,140	-20.0	245,636	-13,284	-5.4	228,191	+4,161	+1.8

Source: Department of Employment

decline. Most notably, the Western Isles, an area long associated with a well-above average unemployment rate experienced a 30.5% decline in unemployment totals between July 1988 and July 1989.

Analysis of the proportional changes in unemployment totals in the three months to July 1989 further demonstrates the inter-regional variations which occur throughout Scotland. Again, declines were experienced in all local authority areas with the Islands performing particularly well and with the exception of the Western Isles outstripped the quarterly changes witnessed in the mainland regions. In the latter areas, Highland region saw the largest proportional decline with 16% fewer people employed in July 1989 compared with April 1989. There was also a notable decline in Dumfries and Galloway with a 12.3% fall in unemployment - during the three months under review, a decline well in excess of the Scottish 5.4% average. Tayside saw the smallest proportional decline with a meagre 3.9% reduction although Strathclyde with only a 4.0% fall performed only slightly better.

Eight of Scotland's 12 local authority areas witnessed increases in their unadjusted monthly unemployment totals with proportional increases in excess of the Scottish 1.8% average recorded in Lothian (2.5%), Strathclyde (2.4%) and Grampian (2.2%). The Shetland Islands experienced the most substantial proportional decline with unemployment falling by 8.5% over the month to July 1989 but in numbers this was only a reduction of 41. Highland region also fared well with a 3.9% drop in totals.

Despite a decline in excess of 29,000 in the numbers of unemployed over the year, Strathclyde still remains the mainland region with the highest unemployment rate with some 12.9% of the working population unable to find employment. Indeed, with an unemployment total of 130,719, Strathclyde accounted for 56.3% of Scotland's total unemployment in July. Unemployment rates in excess of 10% were evident in Fife and Central with rates of 10.9% and 10.8% respectively and an above average rate of 9.8% was recorded in Tayside. Grampian and the Borders continue to be the mainland areas with the lowest rates recording 5.4% and 5.8%. This was again bettered in Shetland where the unemployment rate at only 4.5% is now less than half of that for Scotland as a whole. The highest overall unemployment rate however was also to be found amongst the Island areas with 14.3% of the working population in the Western Isles, unemployed.

Trends in the recent male unemployment situation shown in Table 2. In the twelve months to July 1989 male unemployment in Scotland fell by 36,184 (62.2%). The Scottish total unemployment reduction to 165,646 unemployed males. This represents 11.5% of the male workforce although these figures are an improvement on those reported in the last issue of the Commentary the 17.9% proportional decline in male unemployment annual total unemployment in Scotland suggesting that the male labour market is not performing as well as that for females. There were also reductions in the quarterly and monthly figures for the number of males out of work although in the latter case the reduction was only 0.2% of June's total.

Again, the three Island regions were the local authority areas witnessing the most substantial declines in their unemployment totals over the year. The Western Isles had the most notable fall with 30.9% fewer people out of work in July 1989 compared with July the previous year.

Shetland and the Orkney Islands were only marginally behind with respective declines of 28.2% and 27.8%. However, there still remains great disparity in male unemployment rates on the Islands. Despite the fall of 472 in the numbers of male unemployed on the Western Isles, it still remains the local authority region with the highest proportion of its male workforce unable to secure unemployment with some 18.9% of males unemployed. In stark contrast, Shetland remains the local authority with the lowest male unemployment rate in Scotland with only 4.5% of the male labour force out of work. This partly reflects the strength of the oil industry in this area. A male unemployment rate below the Scottish average was also recorded in the Orkneys where the rate is 9.4%

Reductions in male unemployment in the year since July 1988 occurred in all Scottish mainland regions. Highland's 23.8% reduction in total was the most substantial but rates in excess of 22% were also evident in Grampian (22.9%) and Dumfries and Galloway (22.3%) Proportional changes above the 17.9% Scottish average also occurred in Lothian (19.8%) and Fife (18.3%). Proportionally Central witnessed the smallest decline with 15.3% fewer males unemployed in July this year compared

Table 2: Male unemployment by region

	% rate Jul 89	Total Jul 89	Total July 88	Total Annual Change	% Change in Annual Totals	Total Apr 89	Total Quarterly Change	% Change in Quarterly Totals	Total Jun 89	Total Monthly Change	% Change in Monthly Totals
Borders	7.1	1,508	1,805	-297	-16.5	1,579	-71	-4.5	1,529	-21	-1.4
Central	13.3	7,671	9,060	-1,389	-15.3	8,353	-682	-8.2	7,671	0	-
Dumfries & Galloway	9.6	3,003	3,865	-862	-22.3	3,446	-443	-12.8	3,004	-1	-
Fife	13.1	10,093	12,350	-2,257	-18.3	10,782	-689	-6.4	10,088	5	-
Grampian	6.3	8,168	10,592	-2,424	-22.9	9,151	-983	-10.7	8,111	57	0.7
Highland	10.9	5,429	7,127	-1,698	-23.8	6,395	-966	-15.1	5,677	-248	-4.4
Lothian	10.9	21,464	26,760	-5,296	-19.8	22,971	-1,507	-6.6	21,391	73	0.3
Strathclyde	16.6	95,431	114,338	-18,907	-16.5	101,547	-6,116	-6.0	95,673	-242	0.3
Tayside	12.2	11,217	13,563	-2,346	-17.3	11,781	-564	-4.8	11,196	21	0.2
Orkney Islands	9.4	353	489	-136	-27.8	432	-79	-18.3	357	-4	-1.1
Shetland Islands	4.5	254	354	-100	-28.2	352	-98	-27.8	297	-43	-14.5
Western Islands	18.9	1,055	1,527	-472	-30.9	1,233	-178	-14.4	1,062	-7	-0.7
Scotland	11.5	165,646	201,830	-36,184	-17.9	178,022	-12,376	-7.0	166,056	-410	-0.2

Source: *Department of Employment*

with last year. Strathclyde and the Borders both with 16.5% reductions in male unemployment totals did not fair much better. Tayside with a 17.9% decline also performed below the Scottish norm.

Proportional reductions in male unemployment were also recorded over the three months to July 1989 in all regions but there are considerable variations in the extent of the falls. Again the island areas all made strong performances but this time Shetland saw the most substantial decline with a fall of 27.8% in male unemployment between April 1989 and July 1989. The Orkneys and the Western Isles with falls of 18.3% and 14.4% also did well. On the mainland, changes range from a 15.1% fall in Highland region to only a 4.5% reduction in the Borders.

Three mainland regions had only negligible changes in their male unemployment totals although with the exception of Highland and Shetland all the monthly changes were small in magnitude. Grampian (0.7%), Lothian (0.3%) and Tayside (0.2%) were the only regions witnessing proportional increases. Shetland saw a 14.5% decrease in male unemployment between June and July of this year. In number terms, 43 fewer males are unemployed. Highland region also had an above average fall in male unemployment total with 248 (4.4%) fewer males out of work in July.

It has already been mentioned that the local authority regions with the highest and the lowest male unemployment rate are to be found amongst the islands. There are also considerable variations in rates on the mainland. Grampian has the lowest rate at 6.3% with the Borders not far behind at 7.1%. Dumfries and Galloway (9.6%) also had a rate below 10%. Again, Strathclyde has the highest rate with 16.6% of its male workforce out of work. Central and Fife both recorded rates in excess of 13% with 13.3% and 13.1% respectively.

An indication of the current state of the female labour market can be gleaned from Table 3. As the table shows, female unemployment in Scotland fell from 88,662 in July 1988 to 66,706 in July 1989. A fall of some 21,956 (24.8% of the 1988 total). The result of this reduction is a female unemployment rate of 6.3% which is an improvement on the 8.5% rate evident in July last year although it must be remembered that the omission of school leavers from the unemployment count this year means the figures are not directly comparable.

Of the mainland regions, Grampian experienced the largest proportional decline in female unemployment with a fall of 30.6% in the totals over the year. Lothian, Dumfries and Galloway and the Borders also all performed well with respective falls of 28.2%, 27.5% and 27.0%.

Falls below the 24.7% Scottish average were noted in Strathclyde (23.5%) Tayside (21.8%) and Central (20.7%). The island areas all performed well with a 29.1% fall recorded in the Western Isles, a 27.6% fall in Shetland, and a fall of 24.3% in the Orkney Islands.

Only Strathclyde witnessed a rise in female unemployment in the quarter ending July 1989 with 701 (2.0%) more females unemployed in July compared with April. The island areas all performed better than the 1.3% fall averaged for Scotland with declines of 13.6%, 12.6% and 7.5% recorded for Orkney, the Western Isles and Shetland respectively. On the mainland, Highland witnessed the most substantial decline, with 17.9% fewer females out of work in July compared with the situation in the preceding three months. Dumfries and Galloway also did well with an 11.3% fall reported.

Only Dumfries and Galloway and Highland regions experienced reductions in female unemployment between June and July. Indeed on average for Scotland, there was a 7.4% rise in the numbers of females unemployed during that period. This represents 4,571 females. This is not to be interpreted as an indication of a change in fortune for the female labour force since seasonal factors are likely to be exerting some degree of influence. The most notable proportional increase in female unemployment occurred in Strathclyde where female unemployment rose by 3,258 (10.2%) over the month. A rate in excess of the Scottish norm was also recorded in Lothian where female unemployment rose by 8.6% or 663 females.

The highest female unemployment rate was recorded for the Western Isles where 8.4% of the female workforce are unable to find work. Strathclyde, with a rate of 8.0% is not doing much better. Rates in excess of 7% were recorded for Fife (7.9%) and Central (7.7%). The Borders is the region with the lowest female unemployment rate with only 4.2% of its female workforce unable to

Table 3: Female unemployment by region

	% rate Jul 89	Total Jul 89	Total July 88	Total Annual Change	% Change in Annual Totals	Total Apr 89	Total Quarterly Change	% Change in Quarterly Totals	Total Jun 89	Total Monthly Change	% Change in Monthly Totals
Borders	4.2	703	963	-260	-27.0	729	-26	-3.6	688	15	2.2
Central	7.7	3,602	4,544	-942	-20.7	3,736	-134	-3.6	3,445	157	4.6
Dumfries & Galloway	6.6	1,672	2,306	-634	-27.5	1,886	-214	-11.3	1,725	-53	-3.1
Fife	7.9	4,502	6,060	-1,558	-25.7	4,748	-246	-5.2	4,362	140	3.2
Grampian	4.3	4,305	6,203	-1,898	-30-6	4,521	-216	-4.8	4,093	212	5.2
Highland	6.2	2,384	3,193	-809	-25.3	2,905	-521	-17.9	2,454	-70	-2.9
Lothian	5.0	8,359	11,635	-3,276	-28.2	8.422	-63	-0.7	7,696	663	8.6
Strathclyde	8.0	35,288	46,149	-10,861	-23.5	34,587	701	2.0	32,030	3,258	10.2
Tayside	6.8	5,166	6,608	-1,442	-21.8	5,260	-94	-1.8	4,941	225	4.6
Orkney Islands	6.1	184	243	-59	-24.3	213	-29	-13.6	177	7	4.0
Shetland Islands	4.4	186	257	-71	-27.6	201	-15	-7.5	184	2	1.1
Western Islands	8.4	355	501	-146	-29.1	406	-51	-12.6	340	15	4.4
Scotland	6.3	66,706	88,662	-21,956	-24.8	67,614	-908	-1.3	62,135	4,571	7.4

Source: Department of Employment

find work. Grampian and Shetland, with rates of 4.3% and 4.4% are

Comparing Tables 2 and 3, the female unemployment rate is lower in all Scottish local authority regions than the corresponding rate for males. Comparison of the changes in annual totals for male and female unemployment shows that excluding the island areas proportionally female unemployment fell by a larger percentage than did unemployment amongst males. This suggests that the female labour market is performing more strongly than that for males. However, analysis of the quarterly and monthly changes does not serve to reinforce this trend. With the exception of Highland region, male unemployment fell by a larger proportion in all local authority regions than did female unemployment during the quarter to July. Indeed female unemployment declined by only 1.3% between April '89 and July '89 which compares poorly with the corresponding 7.0% decline in male unemployment. For the monthly changes there was in fact a 7.4% rise in female unemployment compared with a 0.2% decline in that amongst males. Such statistics may serve to underline the more seasonal nature of female employment or may in fact be an early indication that the strong performance of the female labour market is now moderating. Whichever interpretation proves to be correct a clearer picture should emerge over the next few months.

The issue of the inter-relationship between unemployment and vacancies is addressed in Table 4. The number of vacancies reported in each local authority is presented along with an unemployment/vacancy ratio which is calculated using the unemployment figures contained in Table 1. Whilst it is useful to compare unemployment levels with the number of available vacancies, caution should be exercised when interpolating the tables for a number of reasons.

The vacancy figures presented represent only those unfilled vacancies notified to Job Centres and Careers Offices on the reporting date.

Latest estimates suggest that nationally only about one third of unfilled jobs are notified to Job Centres and these tend to be for lower paid and lower skilled jobs. Hence, a complete picture of the current demand for labour cannot be formulated from published vacancy data.

Vacancies are usually recorded to either Job Centres (who mainly deal with openings for adults over 18) or Careers Offices (who mainly deal with opportunities for young persons under 18 years of age). Occasionally however, the same vacancy will be notified to both services or to more than one Job Centre and thus could be included in more than one vacancy count. There is therefore likely to be some incidence of measurement error.

The unemployment/vacancy ratio is intended to give a broad indication of the numbers of registered unemployed people competing for each vacancy. However, since registered vacancies represent only a proportion of the total number of unfilled jobs in the economy, the unemployment/vacancy ratio will be lower than that indicated in Table 4. This effect is partly offset by the fact that not only registered unemployed people are likely to be competing for the vacancies.

Despite these shortcomings, analysis of data relating to vacancy levels and unemployment/vacancy ratios gives a useful guide to regional variations and any trends which may be developing.

In July 1989, the total number of unfilled vacancies notified to Job Centres and Careers Offices was 23,976. This was 3164 (15.2%) more than were notified in April 1989. Combined with a fall in unemployment, a further reduction in The Scottish unemployment/vacancy ratio has been effected. The unemployment/vacancy ratio stood at 9.7 in July this year which compares well with last quarters 11.8 and last years 13.7. Nine of Scotland's twelve local authorities saw the level of recorded vacancies rise over the three months to July 1989.

Although in actual numbers, the most substantial rise was in Strathclyde with 1,000 more vacancies reported in July compared with April, this represented only a 10.7% increase in April's total. In proportional terms, rises more substantial than this were recorded elsewhere. In Tayside, reported vacancies rose from 947 in April by 464 (a rise of 49%) to reach 1,411 in July. A 39% increase in the level of vacancies was noted in Highland. Fife and Dumfries and Galloway both saw their vacancy levels fall by 19 during the quarter to July. Although the Western Isles only witnessed a decline of 10 in the number of notified unfilled jobs, this represented over 10% of April's total.

Table 4: Registered vacancies* and unemployment-vacancy (U/V) ratios by region, July 1989

	Total Vacancies+		U/V Ratio+
Borders	685	(522)	3.2
Central	1273	(1,117)	11.3
Dumfries & G/way	640	(659)	7.3
Fife	930	(949)	15.7
Grampian	3209	(2,658)	3.9
Highland	1750	(1,259)	4.5
Lothian	3425	(3,084)	8.7
Strathclyde	10318	(9,318)	12.7
Tayside	1411	(947)	11.6
Orkney Is.	126	(105)	4.3
Shetland Is.	124	(97)	3.5
Western Is.	87	(97)	16.2
Scotland	23976	(20812)	9.7

* Unfilled Vacancies at Job Centres and Careers Offices.

\+ Figures in brackets refer to the situation last quarter (April 1989)

Source: Department of Employment

Table 5: TTWAs with unemployment rates above the Scottish and regional average, July 1989

	No of TTWAs	No above Scottish Average+	No above Regional Average+
Borders	5	0 (1)	2 (2)
Central	3	2 (2)	1 (1)
Dumfries & G/way	7	3 (3)	3 (4)
Fife	3	2 (2)	1 (1)
Grampian	9	3 (4)	8 (8)
Highland	8	4 (6)	4 (5)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	11 (11)	5 (7)
Tayside	7	2 (3)	2 (2)
Scotland	57	28 (33)	27 (31)

\+ Figures in brackets refer to the situation last quarter (April 1989).

Source: Department of Employment.

In all regions, the unemployment/vacancy ratio declined. The most notable decline was in Tayside where it fell from 18.0 last quarter to 11.6 this quarter. A substantial decline was also evident in Highland where the ratio fell from 7.4 to 4.5. The smallest change occurred in Fife region where the ratio was only reduced by 0.6 from its April 16.3 level to 15.7 in July. This is due to the reduction in the number of notified vacancies in the area and in fact this ratio is the second highest of any of the local authority areas. This was surpassed in the Western Isles where again only a small reduction in unemployment/vacancy ratio was effected because of a reduction in vacancy levels. Unemployment/vacancy ratios above the Scottish average were also reported in Strathclyde (12.7) and Tayside (11.6) although as already mentioned in the latter case this is a considerable improvement on last quarters figures. The lowest unemployment/vacancy ratio is once more to be found in the Borders with Shetland and Grampian only marginally behind. However, with respective rates of 3.2, 3.5 and 3.9 these may indicate current or near future recruitment difficulties for these areas. This may also apply in the Orkney Islands where the ratio is 4.3 and Grampian where the ratio is 4.5.

It is clear from Tables 1 to 4 that there are considerable variations in the fortunes of the regional labour markets located throughout Scotland. However, even within these local authority regional boundaries, variations, sometimes on a considerable scale, also occur. A picture of intra-regional variations in unemployment can be obtained by analysis of unemployment rates in Travel-to-Work-Areas (TTWAs). This is the smallest area for which unemployment rates are calculated. This is an approximation to a self contained labour market where most commuting to and from work occurs within the TTWA boundary and there are 57 in mainland Scotland. All three island areas are classed as TTWAs and hence disparities in unemployment situation which occur within Orkney, Shetland and the Western Isles cannot be drawn from TTWA statistics.

Table 6 TTWAs with highest and lowest unemployment rates

Borders	H Berwickshire	8.7	10.2	4.1 (5.7)	1.9 (2.3)
	L Galashiels	4.6	4.5		
Central	H Alloa	14.5	15.6	5.8 (6.3)	1.7
	L Stirling	8.7	9.3		
Dumfries & G/way	H Cumnock/Sanquhar	21.3	22.0	14.8 (13.9)	3.3 (2.7)
	L Annan	6.5	8.1		
Fife	H Kirkcaldy	12.0	12.8	4.7 (5.0)	1.6 (1.6)
	L North East Fife	7.3	7.8		
Grampian	H Forres	16.8	17.7	12.6 (13.0)	4.0 (3.8)
	L Aberdeen	4.2	4.7		
Highland	H Invergordon & D/wall	11.9	14.1	4.7 (5.8)	1.7 (1.7)
	L Inverness	7.2	8.3		
Lothian	H Bathgate	10.7	11.5	4.4 (4.2)	1.7 (1.9)
	L Haddington	6.3	7.3		
Strathclyde	H Girvan	18.3	19.3	13.0 (11.5)	3.5 (2.5)
	L Oban	5.3	7.8		
Tayside	H Arbroath	13.6	14.3	6.6 (6.8)	1.9 (1.9)
	L Perth	7.0	7.5		

+ Figures in bracket refer to the situation last quarter (April '89)

Source: Department of Employment.

The number of TTWAs contained in each region is indicated in Table 5 as is the number of TTWAs with unemployment rates in excess of the Scottish and regional average. If the majority of TTWAs contained in a region have unemployment rates above the Scottish average then this is an indication of a general high unemployment area. The converse is of course true. The Borders, for example, is clearly an area of low unemployment with none of its five TTWAs having unemployment rates above the Scottish average. Strathclyde on the other hand continues to be the typical example of the former case with 11 out of the region's 12 TTWAs having unemployment rates above the 9.3% Scottish average.

Comparing the unemployment rates in the TTWAs with the regional averages is useful in identifying intra-regional areas with significantly above-or-below average unemployment. If the majority of a region's TTWAs have rates in excess of the regional average then this indicates the presence of a few areas, possibly even one with below-average unemployment. Grampian serves well to illustrate such a case. Eight of Grampian's nine TTWAs have unemployment rates in excess of the regional 5.4% average.

It is the large low-rate TTWAs of Aberdeen where only 4.2% of the working population is unable to secure employment, which is pulling down the regional average. The reverse case can be illustrated by Tayside region where only two out of the seven TTWAs have rates in excess of the 9.8% regional norm. The regional average is being pulled up by Arbroath and Dundee whose unemployment rates are 13.6% and 11.2% respectively.

Further indicators of the intra-regional distribution of unemployment can be gleaned from comparison of the highest and lowest TTWA unemployment rate to be found in each mainland region as presented in Table 6. It is possible to calculate the range of unemployment rates witnessed in each region and the ratio of the highest to the lowest rate. Figures for the situation which prevailed last quarter (April 1989) are also given. Only two TTWAs have been replaced. Annan has replaced Dumfries as the TTWA located in Dumfries and Galloway with the lowest unemployment rate. In Highland region, Skye and Wester Ross has been replaced by Invergordon and Dingwall as the TTWA with the highest unemployment rate. For these two regions comparison of July and April's figures should not be made on the same basis as that for other regions.

Cumnock and Sanquhar remain the TTWA with the highest unemployment rate in Scotland with 21.3% of the areas workforce unable to find work. In contrast, Aberdeen still sports the lowest rate with an unemployment rate of 4.2%. For TTWAs separate male and female unemployment rates are calculated. Cumnock and Sanquhar with a male unemployment rate of 26.2% exhibits the highest although Girvan's 23.5% is not much better. The proportion of the male workforce out of work is lowest in Shetland with a male unemployment rate of 4.5%. Aberdeen with a rate of 5% is the next closest. In terms of the highest female unemployment rate, Forres and Cumnock and Sanquhar both have rates of 13.7%. The lowest rate of 3.2% was recorded in three TTWAs namely Aberdeen, Galashiels and Kelso and Jedburgh.

The Borders has replaced Lothian as the region with the smallest range in TTWA unemployment rates. Only 4.1% separates its high unemployment TTWA of Berwickshire from Galashiels its low TTWA. Lothian, with a range of 4.4 however, still fairs well. Small ranges are also evident in Fife and Highland both with only 4.7% separating their high TTWA from their low area. Dumfries and Galloway is the region with the highest range 14.8% separates Cumnock and Sanquhar's 21.3% from Annan's 6.5% Strathclyde has a range of 13% and Grampian also has a notable range of 12.6.

The ratio of highest to lowest TTWA unemployment rate for each region also provides some information in disparities on unemployment distribution within regions. Except in Strathclyde, these are little changed from last quarter. In Strathclyde the ratio rose from 2.5 in April to 3.5 in July. This is due to a disproportionate reduction in unemployment in Oban. Although the ratio also increases notably in Dumfries and Galloway, from 2.7 to 3.3 this is mainly due to Annan replacing Dumfries as the low TTWA.

Grampian region has the highest ratio with unemployment in Forres 4 times higher than unemployment in Aberdeen. Strathclyde and Dumfries and Galloway also have high ratios of 3.5 and 3.3 respectively. Fife region has the lowest ratio with Kirkcaldy's unemployment rate 1.6 times larger than North East Fife. Low rates of 1.7 were recorded in Central Highland and Lothian.

There are thus indications that no significant disparities in unemployment exist in these regions.