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Notes to contributors

The editors welcome contributions to the Briefing Paper, Feature Article and Economic Perspective sections. Material submitted should be of interest to a predominantly Scottish readership and written in a style intelligible to a non-specialist audience. Footnotes and references should conform to recent issues of the Commentary. Contributions should be typed and two copies submitted to the Editor.

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Neither Scotland nor the UK continue to
bump along the bottom of the recession.
Some recent UK data suggest the
glimmerings of an upturn, but recovery is
likely to be slow and lengthy.

Previous quarterly data up to the first quarter of
1991 had suggested that the rate of decline in UK
GDP was steadily slowing. However, preliminary
GDP figures for the second quarter indicate a fall of
0.9% compared with the first quarter, rather more
than might have been expected if there was any
clear sign of the recession bottoming out by the
middle of the year. This suggests that the economy
is continuing in the trough of the recession, and if
these preliminary data are not substantially revised
it is unlikely that there will be much of an upturn

There may, however, be faint signs that the
long-awaited revival in consumer spending is
beginning to materialise. After falling in April and
May seasonally-adjusted retail sales rose by 1.5% in
June, and the July figure has been revised upwards
from 0.3% rise to an increase of 0.7%. Over the
six months to July retail sales were 0.5% higher
than the previous half-year. This has been
accompanied by a net increase in outstanding
consumer credit of £187 million in July, following
a fall in May and a very slight rise in June. These
figures exclude bank loans, and the recent half
percentage point cut in interest rates may provide a
further boost to credit card borrowing which forms
much of the monthly fluctuations in the consumer
credit figures. Certainly, these data tend to be very
volatile, but an increase in retail sales fuelled by
credit card debt rather than rising real incomes is
not the kind of sustainable rise in consumer
spending which the government hopes will drag us
out of recession.

Scottish Performance

Provisional data for the Scottish index of production
and construction for the first quarter of 1991
suggest some levelling off of the rate of decline
following the precipitous fall recorded in the latter
part of 1990. Depending on the extent of
subsequent revisions, this suggests that Scottish
industrial performance may be resuming its
longer-term pattern in relation to the UK after the
'bump and slump' of late 1989 and 1990 (of which
more later). According to the latest figures, output
in the production and construction industries in
Scotland declined by 1.0% over the four quarters to
March 1991, compared with a fall of 1.4% for the
UK as a whole. In manufacturing, the figures for
the same period make less attractive reading; a
decline of 3.4% in Scotland compared with 1.9% in
the UK.

In the last Commentary it was suggested that the
apparent sharp rise and subsequent slump in
Scottish industrial output recorded in 1990 was due
at least in part to overestimation of the rise in
output for the first quarter of that year. Recent
revisions to the data suggest that this was indeed
the case, although the effect has been to reduce
rather than eliminate the output blip. Official data
published in May indicated a rise in manufacturing
output of 5.0% in that single quarter; this has now
been revised to 2.5%, which is still substantial but
much less dramatic than was previously indicated.
The slump in manufacturing output in the second
half of 1990 relative to the first half has now been
revised downwards from 9.8% to 7.8%, and later
data revisions may further reduce the extent of the
recorded fall.

In Scotland, 27% of industrial output is devoted to
the production of investment goods compared with
19% in the UK as a whole, which makes the
investment behaviour of British business of
particular interest to Scotland. Here the outlook is
far from rosy. Provisional estimates indicate that
capital expenditure by UK manufacturing industry
was 28% lower in the second quarter of this year
than in the same period in 1990; in the engineering
industry, crucial to Scotland's investment goods
sector, the fall was 31%. Manufacturing investment
has been in decline since the second quarter of
last year, and survey evidence indicates that
investment intentions remain weak.

Quite apart from the implications which this may
have for productive capacity in the near future, it
would be reasonable to expect such a slump in
investment to have a (lagged) effect on the output
of the investment goods sector in Scotland. In fact,
the behaviour of this sector in 1990 does seem rather odd; output slumped by 17.8% in the second half of last year (revised from the 22% fall indicated in the last Commentary), at a time when manufacturing investment spending was only just beginning to show signs of faltering. Then in the first quarter of 1991, just as investment began to fall rapidly, the latest provisional figures indicate a jump of 8.6% in Scottish investment goods production. These figures do tend to be rather volatile, and so looking for a straightforward relationship with UK manufacturing investment may be rather ambitious; nevertheless, such a marked fall in investment spending does suggest future problems for an important sector of Scotland's economy.

In August unemployment rose for the tenth successive month in Scotland to stand at a seasonally-adjusted total of 228,500, 9.2% of the workforce. In each of these months the percentage increase in the number of people unemployed has been less in Scotland than in the UK as a whole, and in the year to August the number unemployed in Scotland rose by 14.0% compared with a rise of 46.6% for the UK. Of the UK regions, only Northern Ireland exhibited a lower overall rise than Scotland over this period. Further evidence that slackening in the labour market is occurring more slowly in Scotland is provided by the data on unfilled vacancies in jobcentres, which fell by 31% in the year to August compared with 35% for the UK. However, the number of unfilled vacancies is now rising in the UK which is not the case in Scotland.

Although there is no evidence that the rate of increase in unemployment is accelerating in Scotland (seasonally-adjusted unemployment in June, July and August rose by less than in any of the previous three months), there are clear signs of a narrowing in the differential between the monthly rates of increase in Scotland and the UK. Scottish unemployment began to rise in November 1990, and between then and March this year the monthly rate of increase in Scottish unemployment averaged 3.1 percentage points below that of the UK. Between April and August, however, this differential narrowed to an average of 1.2 percentage points. As unemployment continues to rise in both economies this differential could eventually disappear, but in order for the differential in Scotland's favour to be markedly reversed there would have to be clear evidence that Scotland will remain in recession for significantly longer than the UK, or recover significantly more slowly. At the moment this does not seem likely.

The Short-Term Outlook

As Scotland's economy is intimately linked to that of the rest of the UK it makes sense to begin by looking at the immediate outlook for the UK economy. The CSO's cyclical indicators, which attempt to show turning points around a long-term trend, hold out little hope of a speedy recovery. The coincident indicator for July, designed to show current turning points, is still in decline, although the rate of decline has slowed considerably since January. The longer leading index has a reasonable track record of indicating turning points one year in advance; it indicated such a turning point in May 1990, but then virtually stagnated until January this year before turning slowly upwards in February then stagnating again between March and July. Taken together, these indicators suggest a very weak recovery in the second half of this year, with real improvement in the economy delayed until 1992.

Until now, divining Scotland's likely future performance from these and other indicators has been hampered by the lack of a suitable model. However, this issue of the Commentary contains the first projections from the Institute's new short-term model of the Scottish economy, which is designed to provide forecasts of quarterly movements in the seasonally-adjusted Scottish output index for production industries. Details of the forecasts can be found at the beginning of the Scottish Economy section, and a description of the model is contained in the Briefing Paper in this issue.

The forecast indicates that a turning point will occur in the third quarter of this year in the production industries, but that output growth will remain hesitant in 1991 and throughout much of 1992. An output decline of 1.5% this year is followed by a modest 0.9% recovery in 1992, compared with an expected rise of 1.2% in UK production output. This is in line with the expectation that Scotland will resume economic growth no later than the UK, but having suffered a shallower (if not shorter) recession than the UK as a whole.

13 September 1991