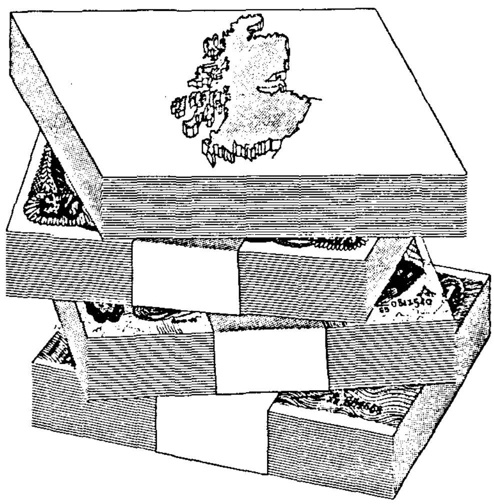
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

Together, the Scottish Chambers' Business Survey (SCBS) and the CBI's Industrial Trends Survey give a reasonable guide to current and recent trends in the Scottish economy. Both Surveys are conducted quarterly with results being derived from the responses of Chamber of Commerce and CBI members respectively. While the two sources are complementary in nature, there do exist important differences between them. Whilst the SCBS provides a geographical breakdown of responses, the CBI Survey provides information on trends by size of firm. Also, the CBI Survey provides information on sectoral employment patterns, whilst the SCBS distinguishes between male and female employment and between full and part-time employment. Furthermore, the number of respondents to the SCBS is well over twice that to the CBI Survey and it covers not only Manufacturing, but also Construction, Wholesale Distribution, Retail Distribution and Financial Institutions. The results from the SCBS are therefore open to a greater degree of disaggregation than those of the CBI survey.

The SCBS was conducted between 9 July and 17 August and the results refer to the three months ending July 1990. The CBI Industrial Trends Survey was conducted between 27 June and 18 July 1990. Both were carried out before the Gulf Crisis began, therefore the results were not influenced by this factor. The Surveys took place against a backdrop of rising inflation and continuing high interest rates.

SCBS

Optimism declined during the 3 months to July for SCBS manufacturing respondents from a balance of -2% to -18%. All areas returned a negative balance of optimism figure ranging from -14% to -19%.

The trends in new orders and sales remained fairly buoyant among manufacturing respondents in the three months to July, with balances of +12% and +34% respectively. All areas showed positive balances, and all areas expect orders and sales to continue to increase during the three months to October, except for new orders in Edinburgh where a balance of -2% of firms are expecting a decline.

With respect to new orders, orders from the rest of the UK were, once again, the most depressed with a balance of -8% of firms experiencing a decline during the three months to July. Once again, the most buoyant area was export orders with a net of +25% of firms experiencing an increase. With respect to sales, export sales represented the most positive trend with a net of +17% of firms reporting an increase.

Most of the manufacturing sectors were pessimistic with negative balance of optimism figures namely: "chemicals" at -59%; "other engineering" at -52%; "textiles, leather, clothing and footwear" at -48%; "miscellaneous manufacturing" at -24%"; electrical and electronic engineering" at -21%; "paper, printing and publishing" at -19%; and "metal manufacturing and metal goods" at -14%. The only two optimistic sectors were "food, drink and tobacco" at +17% and "mechanical engineering" at +24%.

The trends in employment were low positive ones. All areas returned positive balances, except Glasgow where a balance of -16% of firms experienced a decline in total employment. The expected trends in employment were also low positive ones and only in Edinburgh were a net of respondents expecting a decline in total employment.

Manufacturing respondents are operating at 78% capacity utilisation. The trend in the volume of work in progress was down slightly from a balance of +10% to a balance of +1%. Stocks of finished goods and of raw materials rose for a net of firms. Investment in both buildings and in plant and equipment also rose for a balance of respondents.

Optimism amongst construction respondents to the SCBS declined markedly during the three months to July to -27%, the lowest balance since the Survey began in 1984. All areas were optimistic except for Aberdeen where the balance was +68%.

Orders from the other public sector sources represented the only positive trend with a net of +9% of respondents experiencing a rise in orders during the three months to July. The trend in orders from the private sector was negative for the first time since April 1987 and reached the lowest point ever with a balance of -33% of respondents expecting a decline in private sector orders. Central government orders declined for a balance of -29% of respondents. Both orders from other public sector, and from central government sources are expected to increase for a balance of respondents during the 3 months to October.

Regionally, in Aberdeen, the only positive trend was from private sector orders, whereas in Edinburgh and Glasgow, balances of -85% and -56% of respondents respectively experienced a decline in private sector orders.

Total employment and non-manual employment rose for balances of +7% and +4% of firms respectively. Manual employment declined for a net of -2% of firms. Edinburgh and Glasgow respondents experienced declines in all categories of employment.

Optimism in the wholesale distribution sector improved slightly from +7% to +11%. However, on balance, firms in Edinburgh and Glasgow were pessimistic.

The trend in the volume of sales remained buoyant at a balance of +38%; a net of +31% of respondents expected sales to continue to rise. All areas except Glasgow experienced an increase in sales.

Employment rose for a net of +9% of firms during the three months to July, however a balance of -5% of firms expect total employment to decline during the current quarter. Only in Glasgow did a net of respondents experience a decline in total employment.

The balance of optimism figures for the retail distribution sector of the SCBS improved from +2% to +16% during the three months to July. All chambers returned positive balance of optimism figures ranging from Aberdeen with a balance of +43% to +3% in Dundee.

A net of +38% of respondents experienced an increase in the total volume of sales. The positive trend is expected to continue as a net of +21% of companies expect total sales to rise during the current quarter.

The trend in total employment declined for a balance of -4% of retail respondents, and improvement from -25% in the May Survey. According to the respondents, employment prospects are not going to improve, with a net of -15% of firms expecting employment to decline in the three months to October.

CBI Industrial Trends Survey

The July 1990 Industrial Trends Survey saw business optimism decline for the sixth successive Survey. Respondents indicated that they were on balance less optimistic than they were in April. As with the SCBS, "food, drink and tobacco" was relatively optimistic.

Despite expectations of a rise in demand from the April Survey, a balance of -8% of firms experienced a decline. This reflected a further decline in domestic demand and a fall in new export orders. A balance of +20% of responding firms expected total demand to increase during the current four months.

Output growth improved over the four months prior to the Survey with a balance of +17% reporting an increase compared to a zero balance in the April Survey. All sizes of firms experienced an increase in output.

Large firms, "chemicals", "engineering" and "metals and metal manufacture" all indicated a decline in the volume of total new orders, while an upturn in demand was reported by "textiles" and "food, drink and tobacco".

Despite April's expectation of further destocking, stocks of finished goods increased in the four months prior to the Survey, however, they are expected to have declined considerably by the October Survey. Stocks of raw materials and bought in supplies and stocks of work in progress also increased, though are expected to decline.

A shortage of orders or sales remained the most frequently cited constraint on output, and was mentioned by 74% of firms. Plant capacity was cited by 27% and a shortage of skilled labour by 18%.

Fixed capacity, on balance, remained more than adequate to meet expected demand during the current year with a balance of +19% reporting fixed capacity to be more than adequate in relation to expected demand. The proportion of manufacturers reporting present output levels below capacity fell to 40% from 44% in April.

On balance, firms expect to authorise less capital expenditure on plant and machinery over the twelve months following the Survey. "Textiles", "engineering", "other manufacturing" and "metals and metal manufacture" all expect investment to decline. "Chemicals" and "food, drink and tobacco" expect investment to increase. The most frequently cited reason for the authorisation of capital expenditure continued to be in order to increase efficiency. The factor most likely to limit capital expenditure remained an inadequate return on the proposed investment. Against the background of high interest rates, the cost of finance was cited by 24% of firms as a factor constraining capital expenditure.

Manufacturing employment, on balance, declined. The biggest fall in employment was reported by "engineering". However, "textiles", "metals and metal manufacture" and "food, drink and tobacco" all indicated an upturn in employment. Respondents expect employment to fall at a faster rate with "chemicals" anticipating a sharp reduction in employment. Only "food, drink and tobacco" expects to increase employment.

The rate of growth in average costs per unit of output picked up over the four months prior to the Survey. A marked pick up in the rate of growth in costs was reported by "chemicals" and "textiles". Average prices at which domestic orders are booked rose at a slower rate than had been expected, with a balance of +14% of firms reporting price rises. A slower rate of increase in prices was reported by all sizes of firms and all sectors except for "chemicals", "other manufacturing" and "food, drink and tobacco".

Confidence about export prospects improved for small and large firms, "engineering", "other manufacturing" and "food, drink and tobacco". Although the volume of new export orders fell over the four months to the Survey for all size firms. On balance, firms expect a resumption of growth in new export orders.

The rate of increase in the average prices at which export orders are booked, slowed during the four months to the April Survey. Some pick up in the rate of increase in export prices is expected during the current four months. Prices remained the most important factor likely to limit the ability to obtain export orders.

Conclusions

Both Surveys revealed declines in manufacturing business optimism, partly reflected by a fall in export orders. The CBI Industrial Trends Survey reported a further weakening of investment intentions, whereas the SCBS respondents reported an improvement.

Primary

AGRICULTURE AND FORESTRY

Recent issues of this Commentary have examined the relatively poor position of the agricultural industry in Scotland and the rest of the UK. Little has changed to remedy this in the last quarter of the year.

In June, Dr Richard Eckersall, of Scottish Agricultural Industries warned government not to ignore farming. He claimed that lack of profitability and lack of any coherent government policy had placed farmers in a difficult position. Investment in Scottish farm buildings, machinery and farm improvements had almost halved from the £200 million total in 1984. Dr Eckersall argued that world grain stocks were at low levels, and that a poor world harvest would result in increased demand for output that Scottish farmers would be unable to respond to, given their financial position.

A joint study by Wye College in Britain and Institut de Gestion Internationale Agro-Alimentaire (Paris) revels that the UK position is not shared by the farming sector in all other EC member states. For example, in West Germany general inflation is running at 2.6% with nominal farm income expected to rise by 6.4%. In the UK by contrast, the respective figures are 9.5% and 5.9%, indicating a fall in real farm income.

French farm incomes appear to have slumped badly during the last year, and this has contributed to the so-called "lamb wars" directed at British sheep exports. French lamb farmers' attitudes in this case are indicative of the strong feelings that emerge during periods of transition and uncertainty such as the agricultural sector is now going through.

Meanwhile, movements in the direction of further liberalisation of agriculture are taking place as the United States seeks to persuade the European Community to reduce export subsidies. The UK government, together with other Community members, is willing to move in this direction, but only if the aggregate level of farm support in the United States is no higher than that of the EC states after subsidy reductions. (The United States employs a widespread system of farm deficiency payments which, claims Britain, have the same distorting effect on world prices as the EC export refund provisions.)

The wool industry is now experiencing a huge international glut in supply, and wool prices in Britain will fall substantially. Scottish wool producers will face serious problems, and Shetland wool sales are likely to be particularly hard hit, as local farmers there pulled out of a government price guarantee scheme in 1989, being able to sell at higher prices than outwith the scheme. The wool industry in the UK as a whole is largely now a by-product of sheep meat farming, and so the effect will not be too serious in most cases. However, where (as in some parts of Shetlands and elsewhere in Scotland) production is primarily for wool, long term prospects for these establishments are rather bleak.

In late June the Nature Conservancy Council in Scotland called for a re-allocation of resources going into farming and the environment. The Scottish NCC argue that conservation measures are particularly timely as agriculture seeks alternatives to the intensive farming methods of recent decades, which had brought environmental problems with them. The NCC believe that partnerships which strike the right balance between agriculture and conservation need not be to the financial detriment of farmers. An example of the new opportunities that such conservation agreements could open up is farm tourism, offering accommodation to small numbers eager to learn about the rural environment.

In the forestry sector, there appears to be little sign of a significant reversal in fortunes since the decline in new planting following the 1988 budget changes. High interest rates are adding to problems in this sector, reflected in the fall in pre-tax profits of Economic Forestry Group by over 50% in the last year.

Much of the debate in agriculture and forestry these days (as we indicated earlier) concerns the weighting that should be attached to conservation,and what that term means precisely. It is clear that the political support for conservation has widened dramatically in recent years, and that land use changes (or proposals for change) are being far more carefully evaluated in terms of possibly environmental consequences. During recent months, plans for extensions of skiing into Lurcher's Gully in the Cairngorms have been turned down on appeal to central government, grants for afforestation of certain parts of the Flow Country of Caithness have been refused, and controversy has flared surrounding the use of peat and its commercial extraction.

The benefits of environmental conservation tend to be diffused throughout the while community (not only national but also international). Unfortunately, the costs of conservation schemes are often localised in impact, and within Scotland, Highland Region faces this contrast most starkly in many cases. Highland Region expects a 6.5% rise in population by the year 1998, against a background of static job opportunities. Not surprisingly, it is very concerned to foster job creation or support schemes. It is to be welcomed, then, that in August of this year, Highland Region and the Nature Conservancy Council for Scotland have moved towards a more co-operative relationship. Finding the right balance between local community and environmental interests will rarely be easy, but a co-operative working relationship, if it can be maintained, will help to achieve that balance.

FISHING

Recent figures for fish landings into Scotland are presented in Figure 1. Total landings by weight were slightly down (by 4%) compared with the equivalent five month period one year earlier. During January-May 1990, the average price rose by 13% relative to the previous year, resulting in a 9% rise in overall value of fish landings.

These overall figures mask substantial differences in the catches of the various species of fish. Not surprisingly, given the tightened quotas and the decline in population numbers in Scottish waters (discussed in the previous two issues of this Commentary), demersal fish fell in volume catch, particularly haddock (down by 35%). Prices rose very substantially for each of cod, haddock and whiting, suggesting an inelastic demand (at least in the short run) for these species. Nevertheless, even though haddock prices rose by 44%, this was insufficient to sustain fisheries revenue from the haddock fleet.

Pelagic species overall rose in volume by 31%, principally because of a substantial increase in landings of the dominant species (herring) for which landings were up by almost half. Clearly, substitution is taking place in the market for fish, as the large rise in haddock catch was not associated with any fall in price.

Shellfish landings, at £16.9 million by value, were eight per cent down on the same period one year earlier. The value of Norway lobsters dropped by 15% to £9.1 million, due to a 28% fall in landings by volume. Lobster and crabs changed little in value, price rises offsetting volume falls.

It is worth considering the long term prospects of the fishing industry at this point. In recent years, Britain's fishing fleet, largely concentrated in Scotland has been modernising and expanding. While this has been happening, some species have been declining seriously in population size. For example, haddock recruitment (that is, the addition to the stock through population growth) was believed to be around 122 million per annum in the mid 1970s; it is now estimated to be 7 billion [figures apply to UK].

The fall in populations has been masked this year by a bulge in four year old fish (and so at the best age for harvesting), recruited in 1986. Prospects for next season are extremely worrisome. As Mr Bob Allen of the Scottish Fishermen's Federation says "there are too many vessels chasing too few fish".

One answer is for government to fund fishermen to lay up vessels (in a similar way to farming "set aside" for land). This is not acceptable to the British government, but in its absence some reorganisation is required to avoid widespread bankruptcies in the next few years.

Finally, it should be noted that declining fish populations are not solely the consequence of excessive exploitation of the stocks. Scientists believe that marine environmental conditions have been undergoing changes in recent years, deleterious to fish growth. It appears that warmer water, perhaps related to global climate change, may be a contributory factor. Many fish appear to be dying at the egg stage when they are relatively close to water surfaces.

Construction

The latest Scottish index of production and construction figures show that, for the first quarter of 1990 the construction industry index stood at 108.8. This figure is the highest for many years and is 4.7% up on the preceding quarter and 4.8% up on the first quarter of 1989. The UK picture is broadly similar with the first quarter figure for 1990 standing at 126.2 which is 2.2% up on the preceding quarter but only 1.3% up on the first quarter 1989.

The latest Scottish Chambers' Business Survey (SCBS) shows that the Scottish construction sector is being kept afloat by the still buoyant Aberdeen Chamber Area. A balance of -27% of all firms reporting foresee the general business situation as worse than it was three months previously. However, as Table 1 illustrates 68% of respondent firms in the Aberdeen area foresee an improvement in the general business situation over the previous three months. Table 1 also shows that, for respondent firms, there is a reliance on public sector orders more so than private sector

Figure 1 Fish Landings in Scotland: January to May 1990 - Compared with January to May 1989

	Jan to May 1990			90 as % of 89		
	Weight Tonnes	Value £'000	Price £/T	Weight %	Value %	Price %
Landings by UK vessels						
Demersal	65,605	70,913	1,081	81	111	137
Pelagic	71,448	8,230	115	131	143	109
Shellfish	11,318	16,909	1,494	84	92	109
Cod	14,081	17,006	1,208	90	116	128
Haddock	17,796	21,660	1,217	65	93	144
Whiting	10,286	9,164	891	99	139	141
Dover Sole	28	97	3,464	88	84	96
Hake	618	1,319	2,134	96	133	139
Lemon Sole	936	1,636	1,748	117	137	117
Megrims	871	1,240	1,424	85	116	136
Monks	3,955	8,122	2,054	104	125	120
Plaice	2,451	1,757	717	106	133	125
Saithe	4,597	2,460	535	91	117	129
Skate	1,533	1,070	698	100	124	124
Norway Pout	0	0				
Sandeels	3,353	143	43	57	68	119
Mackerel	62,292	7,559	121	146	152	105
Herring	2,998	378	126	64	74	114
Crabs	1,045	1,119	1,071	81	92	115
Lobsters	93	1,071	11,516	89	97	110
Pink Shrimps	287	308	1,073	149	141	95
Scallops	1,837	3,218	1,752	113	112	99
Norway Lobsters	3,989	9,076	2,275	72	85	118
Queen Scallops	1,987	638	336	151	147	97
Total by UK vessels	148,370	96,052	647	100	109	110
Landings by foreign vessels	9,188	1,552	169	59	83	141
Total landings in Scotland	157,558	97,604	619	96	109	113

Source: Scottish Information Office, July 1990 ones and Aberdeen is bucking the trend once again with a balance of -50% and +88% for actual trend in new orders from non-central government public sources and from the private sector respectively.

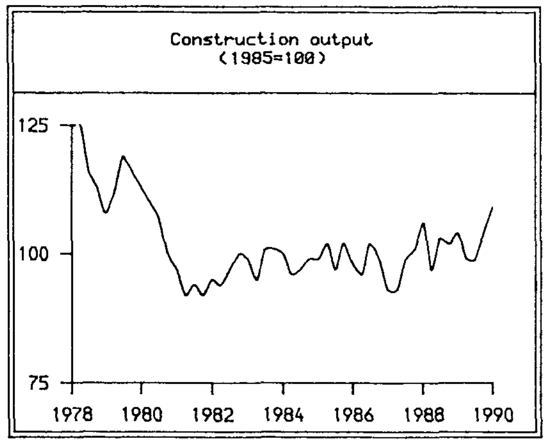
Table 1 Scottish Chambers Business Survey, 3 months to July 1990

	A	D	E	G	All
Balance of Optimism	+68	-11	-42	-51	-27
Actual Trend in New Orders					
from:					
Central Govt.	-40	-47	+62	-31	-21
Other Public Sector	-50	+37	+54	+5	+9
Private Sector	+88	-19	-85	-56	-33
Expected Trend in New Orders					
from					
Central Govt.	+22	-27	-25	+24	+8
Other Public Sector	+52	+34	-	+25	+29
Private Sector	+74	+32	-64	-25	-3
Actual Trend in Employment	+64	+31	-26	-8	+8
Expected Trend in Employment	+82	-	-24	-19	+4
Actual Trend in Work in Progress	+60	+32	+12	-21	+3
Expected Trend in Work in Progress	+92	+36	-21	+16	+33
Capacity Utilisation	95	84	82	80	83

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

Source: SCBS

Reporting firms highlight a shortage of skilled labour as a limiting factor to future output, especially in Aberdeen where 91% of reporting firms highlight this as their only limitation. The response from the other Chamber areas was less with more of the others being limited by a sales/new orders. No firms reporting mentioned that there was any shortage of land. The Dundee Chamber's area is the best of the rest out-performing the reporting all chambers average in the majority of sectors.



The Gulf Crisis and its associated higher oil prices are likely to further skew the construction industry's fortunes towards the Aberdeen area. However, this must be weighted against the subsequent increase in inflationary pressure that a sustained increase could bring about.

Table 2 shows the relative positions of Scotland and Great Britain in the first quarter of 1989 and 1990 for new orders received in a number of sectors of the public and private sectors. Comparing these two time periods for this year and last shows that, in Scotland, total new orders were down 25.7% to £448 million whilst in Great Britain as a whole orders were 11.9% lower at £6,159 million. Looking at the public and private sectors separately; the Scottish private sector was down 21.4% whilst the fall in GB as a whole was less at 16.7%. The public sector exhibits an even more marked divergence between Scotland as GB as a whole. Total new orders in the first quarter to 1990 for the public sector in Scotland are a third less than they were in the same quarter a year ago. However, comparing the same period for Great Britain as a whole there was in fact an increase of 4.2% in the value of new public sector orders.

The greatest percentage change for Scotland was -82.9% in public sector, public transport and

Table 2 **New Orders Received by Contractors in the Building Industry**

	Scotland			Great Britain		
	Q1 89*	Q1 90*	% Difference	Q1 89*	Q1 90*	% Difference
<u>Public Sector</u>						
Housing (new)	33	19	-42.4	219	244	+11.4
Publish Transport & Energy Supply	41	7	-82.9	124	118	-4.8
Health	34	11	-67.7	153	187	+22.2
Roads, harbours & waterways	29	40	+37.9	303	413	+36.3
Water & Sewage	15	14	-6.7	142	52	-63.4
Total Public Sector New Work (A)	219	146	-33.3	1591	1658	+4.2
<u>Private Sector</u>						
Housing (new)	123	144	+17.1	1818	1336	-26.5
Industrial	45	56	+24.4	796	912	+14.6
Commercial	216	102	-52.8	2789	2253	-19.2
Total Private Sector (B)	384	302	-21.4	5403	4500	-16.7
All New Work (A&B)	603	448	-25.7	6994	6159	-11.9

* *£ million, current prices*

Source: Department of the Environment, Construction Industry Directorate, Statistics Division

energy supply and +37.9% in public sector, roads, harbours and waterways. Whilst the largest percentage differences for Great Britain as a whole are -63.4% in water and sewage in the public sector and +36.3% in roads, harbours and waterways.

The large negative differences in the Scottish public sector illustrates the effects of the government's financial austerity. The Scottish private sector is reining back on new commercial developments (down 52.8%), however, industrial property and new housing are still increasing, +24.4% and +17.1% respectively, the latter compared with a GB fall of -26.5%. This clearly illustrates that the government's high interest rates are having a much more pronounced effect on the property sector south of the border.

The NHBC figures for housing starts in the second quarter of 1990 show that there were 14.6% fewer starts registered at 4,100, than in the first quarter 1990. There was a 2.5% increase in the number of starts over the second quarter of last year. In the second quarter of 1990 in Great Britain the number of new starts was only 800 more than in the previous quarter at 35,800 but was 13,900 down on the same period last year.

Scotland is the only region to still be showing an increasing number of starts each quarter. The high interest rates are having an effect here, but the latest Scottish Building Employers' Federation (SBEF) survey seems to imply that the Scottish construction industry may be able to buck the trend. Nation-wide, up to 50,000 jobs are expected to go but the SBEF reports that 60% of its membership plan to maintain employment at its present level with an additional 20% planning to increase its workforce. In marked contrast to the sharp downturn experienced elsewhere in Great Britain, one in four firms reporting stated that they expect to increase their workload in the next 12 months.

SBEF director Bob Campbell has stated that business is starting to level off. The increase in oil business has helped to counteract the slowdown in the central belt, but 90% of firms surveyed reported that output was steady in the first half of the year.

Increased confidence in the oil sector has led to an increase of activity in Grampian which has helped to push house prices up past their 1985 level.

The Gulf crisis should stimulate construction activity in the long run as increased oil prices make more fields viable. There is however one constraint to the construction industry taking full advantage of the benefits of higher oil prices, and that is capacity, already offshore work has been placed at European yards because oil companies were unsure that the UK industry could match their development time scales.

Wimpey have been awarded the contract for a £16 million prime out of town development on the site of a former meat market near Aberdeen, so it is certainly not all doom and gloom in this sector.

Energy

OIL AND GAS

Recent developments in the international oil market have been dominated by Iraq's invasion of Kuwait and the consequent 'Gulf Crisis'. Throughout June and July oil prices had been weak, with Brent trading below $16pb at times, because of continuing excess supply of crude on the world market. For some time, the oil 'glut' had been attributed to over-quota production by certain OPEC members, notably Kuwait and the United Arab Emirates. By the OPEC meeting in late July, there were particularly strong feelings against the 'quota breakers' among the cartel 'hawks', led vociferously by Iraq. The 'hawks' felt that excess production by certain countries had both cost them millions of dollars of lost oil revenues in the past and was currently preventing attainment of their desired reference price of $25pd. Apparent failure to reach agreement on these issues was one of the (but not the only) proximate causes for Iraq's invasion on 2 August.

Subsequently, and very quickly, crude prices have risen significantly, with Brent trading at over $30pb towards the end of the month. It is important to distinguish (at least) two effects leading to increased oil prices, one actual and one anticipatory. The actual effect is the embargo on Iraqi and Kuwaiti oil production, which effectively removes 4mbpd from supply, equivalent to approximately 7% of daily demand. In fact, this 'loss' of supply rationally should have limited effect on the short-term equilibrium oil price for two reasons:

(a) Technologically, other (primarily OPEC) oil producers have the capacity to increase daily output by 2-3mb immediately; which would in itself probably be sufficient to re-equilibrate global supply and demand at around $20pb.

(b) Oil stocks held by the International Energy Authority, national governments, and private companies are very high: over 5 billion barrels on some estimates. Thus, assuming a 'crisis' price of $20pb was acceptable and that this would require 3mbpd offset against lost Iraqi/Kuwaiti crude, this requirement could be met from stocks alone for 4.5 years.

Taken together, (a) and (b) suggest that, given otherwise normal behaviour by market participants world crude supply demand balance could be re-established at prices only modestly above pre-crisis levels. Unfortunately, the 'anticipatory' effects of the crisis have tended to be destabilising, and, in greatly magnifying the impact of the loss of Iraqi/Kuwait oil itself, have been primarily responsible for the very sharp observed increases in crude prices.

Essentially the market has been very afraid that escalation of the Gulf crisis would, through political, economic or military, action, further reduce the daily supply of crude, especially among Gulf producers. The loss of Saudi production, for example, would reduce actual daily output by over 5mb and potential daily output by another 1.4-1.8 mb (see (a) above). One does not have to develop such 'scenarios' very far to envisage serious specific (and latterly general) oil shortages emerging fairly quickly. In view of this, certain consumers, feeling potentially vulnerable, have been increasing their demand for crude in order to build up precautionary stock holdings far above normal levels. For similar reasons, existing holders of crude stocks have to date been reluctant to deplete these, thereby negating the mechanism for offsetting the loss of Iraqi/Kuwaiti crude discussed in (b) above. Thus the reactions of market participants to pessimistic expectations have been such as to exacerbate the emergent supply/demand imbalance and thereby lead to crude oil price increases greater than would otherwise have been necessary.

Given that it is possible to re-equilibrate supply and demand for crude at a much lower price than \$30pb even without an Iraqi/Kuwait contribution, it seems probable that prices will move downwards into the \$20-25pb range over time unless the Gulf crisis does actually worsen. Prices will remain above pre-crisis levels (i) because supply and demand will be balanced at a higher level of capacity utilisation and (ii) there will be a continuing 'risk/insurance premium' in the price until the situation in the Gulf is finally settled.

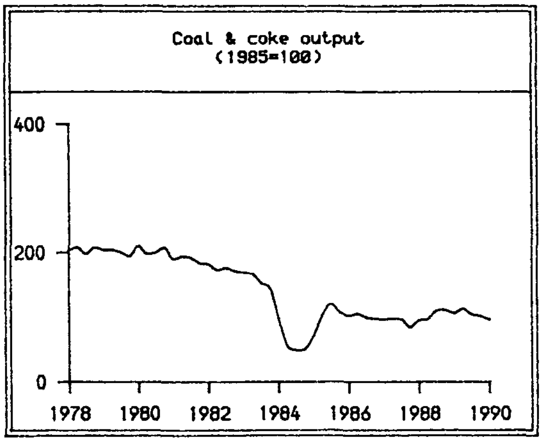
The 'macroeconomic' effects on the UK and Scottish economies of the increase in international oil prices are discussed elsewhere in this Commentary. In this section, it need only be noted that the present violent, but short-term, changes in prices will have no effect on present or future levels of exploration and development on the UKCS until and unless they lead oil operators to revise their predictions of future long-term oil price movements.

In the UK offshore sector, a dispute developed over the summer between certain offshore workers and their employers which, at the time of writing (late August), had not been resolved. Essentially, the dispute involves certain contract catering and maintenance workers seeking new conditions in terms of rights to union membership and other issues, including safety. Since it began, the dispute appears to have escalated and has seen strikes, sit-ins, dismissals and court cases. The workers directly in dispute are not employed by the major oil operating companies but rather by offshore contractors. Though this industrial action began before the Gulf crisis, recent attention has inevitably focused on any disruption it may cause to UK oil production. In fact, given that the striking workers are not directly involved in actual oil production, the dispute will have to be fairly prolonged before it has a significant adverse effect on UK oil output.

ELECTRICITY, COAL AND NUCLEAR POWER

The privatisation of the electricity industry, both in Scotland and in the rest of Great Britain, continues to dominate the current interest in this sector. The recent report by the Commons Energy Committee on nuclear power is a partial result of this policy and contains much information new to the public domain. The impact of higher oil prices will take some time to make itself felt on this sector but could have considerable effects in the medium term.

The abortive proposal for the private sale of PowerGen, the smaller of the two generating companies in England and Wales, has had one important implication for the Scottish electricity industry. The government gave Parliament an assurance that the two Scottish integrated firms would definitely be floated on the stock market. No such assurance was given for National Power, the larger sibling to PowerGen. Clearly, the government considers the two Scottish firms easier to sell. Their integration structure, encompassing both generation and distribution, provides one reason. Because of excess generating capacity in Scotland, it is unlikely that any competing local independent generators will start up in the medium term. There is also a third factor which will be explored below.



Hydro-Electric, formerly NSHEB, produced operating profits of £108.7m in the year to March on turnover which was 25% higher at £435.7m. Electricity sold increased in volume by 4.1%, yielding an 11.2% increase in sales revenue. While profits cannot be compared with earlier years, due to accounting changes, there has been a strong cost-cutting exercise as well as expansion in certain areas. Hydro-Electric's rate of return on assets employed was 18.6%.

Scottish Power, previously SSEB, announced operating profits of £204.3m, a larger figure than had been anticipated. As with Hydro-Electric, the figures cannot be directly compared with earlier results. Electricity sales rose by 3.5%, compared with an average 0.5% over the previous three years. Sales to production industries rose by 6.2%, those to the commercial or service sector by 5.7%. Restructuring ahead of privatisation has been the main feature of the past year, which has seen turnover rise by 16% to £1.132bn. 8% of electricity produced is now being sold to other companies. The rate of return on assets was 21.8% and is comparable with the above figure for Hydro-Electric.

Scottish Power has been assigned ownership of the interconnector to the Grid system in England and Wales. Hydro-Electric are guaranteed access to 46% of its existing capacity and 25% of any addition. Upgrade plans are considered to give capacity in the range 1600MW to 2000MW. All the present capacity is now sold, with Scottish Power increasing its sales to England and Wales by over tenfold in the first two months of this year, compared with the same period in 1989. Hydro-Electric have seen similar growth.

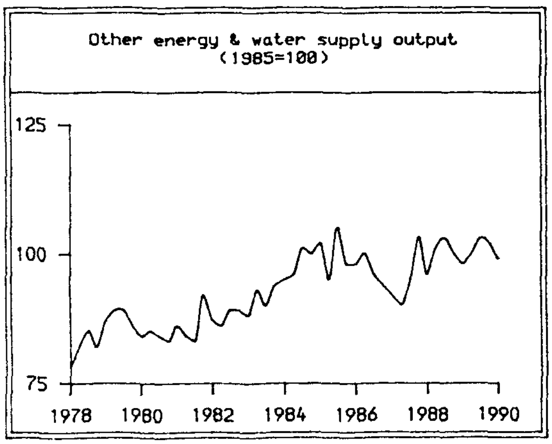
Hydro-Electric have used part of their access to the interconnector to construct options contracts for sale to major electricity users BOC and Wiggins Teape. When the price of Hydro-Electric's power is lower than the spot-market 'pool', the contract comes into force, effectively putting an upper limit on the customer's power costs. Scottish Power have constructed an options contract for 180MW of power to the distribution companies in England and Wales. Although most Scottish Power exports take place though the spot market, a 'roll-up' contract has been concluded with Guinness and United Distillers, who have a number of plants in Hydro-Electric territory.

Hydro-Electric have withdrawn from involvement in a consortium developing a gas turbine power plant in east London. This was due to the group restricting its members from constructing plants except in conjunction with the consortium. Hydro-Electric continues to work with Northern Electric and BOC on developing a gas turbine on Teeside.

Given the integrated nature of the Scottish industry and the likely absence of market entry over the medium term, there have been concerns about the possibility of duopoly. The industry regulator, The Office of Electricity Regulation (Offer), has therefore stated that special attention will be paid to the Scottish market. The construction of an European market in electricity from 1992 will assist the largest firms to obtain competitive prices and so partly further this aim. As a starting point, electricity users will be provided with information on power pricing throughout the EC. Suppliers will have to notify the EC commission of pricing policies twice yearly. This will expose any hidden subsidies or cross-subsidies and will enable firms to know their competitors' energy costs. The EC estimates that a fully liberalised electricity market could save the EC area £36bn between 1992 and 2010.

Government policy on the nuclear industry is due to be revised in 1994. Until that date, the intention is to 'maintain' the nuclear industry. The stated reason is nuclear energy's ability to generate electricity without releasing greenhouse gasses.

This bears little relationship to the findings of the Commons Energy Committee's fourth report 'The Cost of Nuclear Power', HMSO Cm205, 7th June 1990. This is largely concerned with the failed attempt to privatise nuclear power both in Scotland and in England and Wales. Almost all parties concerned are strongly criticised. The Energy Department was found to have inadequately supervised the CEGB over a long period of time. Moreover, the privatisation policy was inadequately prepared for, a criticism laid directly at the door of the then Energy Secretary, Cecil Parkinson. The Energy Department was found to have done little or nothing to make information more available. The CEGB itself produced costings with a systematic bias in favour of nuclear power. Much of the information provided by the nuclear industry to public enquiries was misleading. The merchant bankers for electricity privatisation, Kleinwort Benson, were also criticised, notably for their failure to advise the government that they would have to bear most of the financial risks associated nuclear power after flotation.



Most of the mistakes made by the Energy Department were repeated by the Scottish Office, the Commons Committee found. This has led to the subsidies to Scottish Nuclear, which will continue after the privatisation of the non-nuclear industry. In particular, the Scottish Office assumed as late as May 1989 that the cost of nuclear-generated electricity was broadly commensurate with that from fossil-fired power stations. This was seen as being partly due to the fact that the SSEB, previously responsible for Scotland's nuclear power stations, used historic costs. The Scottish Office neither made an explicit estimate of nuclear generating costs nor obtained a satisfactory estimate from the SSEB until May 1989. Despite this claim that the Scottish Office's view at that time was that nuclear and fossil generating costs were 'broadly commensurate', the Secretary of State for Scotland made a statement to the Commons Committee in February 1989 that nuclear generating costs were 'below' or 'significantly below' those of fossil fuel.

The weighted current costs of the two remaining Scottish nuclear power stations were given as 3.152p/kWh for Hunterston B and 5.161p/kWh for Torness. Since these figures are based on depreciated replacement costs, rather than the more normal gross replacement cost, they understate the costs for Hunterston B. They also do not reflect the increases emanating from fixed price contracts with BNFL. These costs are therefore consistent with the better-operated AGR stations in England and Wales. Hence, the Committee came to the conclusion that: It is clear **therefore that Scotland is no more the beneficiary of cheap nuclear power than are England and Wales** (their emphasis).

The increases in nuclear provisions in Scotland's area boards accounts have been dealt with in earlier editions of the Commentary. As a result, both Scottish boards became technically insolvent. These assets and liabilities were subsequently transferred to Scottish Nuclear Ltd. (SNL), which was therefore in its turn technically insolvent until the government extinguished £1.368bn of its debt.

The information on costs outlined above made the Committee consider that Scottish Nuclear's electricity could not be sold competitively in Scotland. The Nuclear Energy Agreement provides for the two Scottish integrated generators contracting for the whole of Scottish Nuclear's output. This prevents Scottish Nuclear from having access to England via the interconnector, though they have campaigned for this. The price paid by Scottish Power and Hydro-Electric for Scottish Nuclear's output is set in relation to the market price of electricity, rather than Scottish Nuclear's costs. In addition, the government will also provide financial assistance in respect of longer-term nuclear liabilities, especially decommissioning. In the words of the Commons Energy Committee: '**Since SNL's output will** be sold for less than its full cost, it will be

subsidised by the taxpayer'.

This policy differs from that obtaining in England and Wales, where a fossil-fuel levy on electricity consumers is used to cross-subsidise nuclear power. This would not immediately be practical in Scotland, where nuclear stations account for 25% of power capacity but generate about 60% of electricity sold. This has come about as a matter of public policy and not a decision by the electricity generators. This subsidy directly conflicts with competition policy, both at the UK and the EEC level. Indeed, it is possible that the EC's single electricity market, referred to above, could eventually enforce a policy change. The Energy Committee's summary of the effects of this policy were that **'the continuing nature and the variety of subsidies to the nuclear industry constitute a severe and undesirable distortion of the electricity market in Scotland and between Scotland and England and Wales'**. It recommended that similar policies be adopted north and south of the border.

Clearly, the Scottish electricity industry will gain vis a vis that south of the border. However, there is a question mark over whether the Scottish electricity consumer will benefit from the subsidy. As already noted, the two Scottish integrated companies take all the Scottish nuclear electricity at a price subsidised down to the market price for all power. This is effectively a guaranteed supply price, removing a considerable amount of uncertainty about supply costs. The duopoly of these two producers over access to the interconnector to England and Wales means that, at times when the pool price of electricity is above that of the average price, they can profitably resell the guaranteed-price power. While this policy regime lasts, this is an advantage enjoyed only by the Scottish integrated power companies, which further explains the confidence expressed by the government over their privatisation.

One side effect of this policy is that it removes the incentive within Scotland to develop economic non-fossil fuel electricity sources. Privatisation removes the 1983 Energy Act requirement for area boards to purchase electricity on offer at a price comparable to their own costs. Whereas non-fossil generators south of the border will qualify for exemption from the fossil-fuel levy and will be priced as such, this will not occur in Scotland. Therefore, we are faced with a Scottish non-nuclear policy that subsidises inefficient generation but excludes potentially efficient generation. This cannot be good for the long-term health of the industry.

Prior to the increase in oil prices caused by the Gulf Crisis, the power generating companies in England and Wales stated that they would meet 1993 controls on acid emissions largely through imports of low-sulphur coal, rather than by installing scrubbing equipment on all coal-burning power stations. Coal imports have increased from 2m tonnes in 1989 to an anticipated 6m tonnes this year. This policy would add an extra 5m tonnes to coal imports, most destined for southern and north-western England on cost grounds. This could have a serious impact on the remaining Scottish coal industry.

Sustained higher oil prices could easily have an impact on world coal prices, for which the trading market is quite thin. It should also be pointed out that fossil fuel prices are unlikely to be sustained at a high enough level to justify the present nuclear policy.

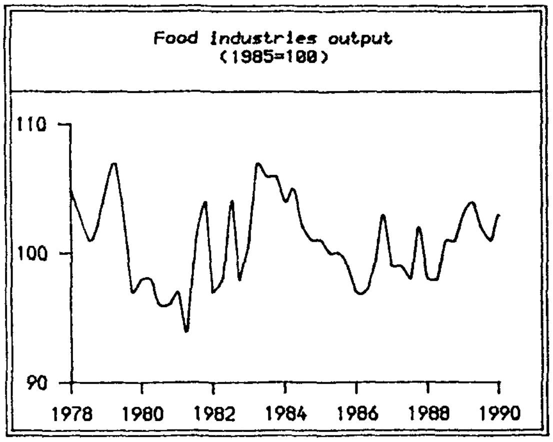
Manufacturing

FOOD, DRINK AND TOBACCO

The Index of Production for the Scottish food industry stood at 103 for the first quarter of 1990 - a 2% increase from the fourth quarter of 1989. At 103 it has not altered from the same time last year or from the 1989 average. The UK index for the 1990 first quarter was 107 compared with a UK 1989 average of 105.

The drink and tobacco index of production for the first quarter of 1989 was 111 which represented an 11% increase from the fourth quarter of 1989 and a 5% increase from the same time last year and the 1989 average. This is a stronger showing than that of the UK drink and tobacco industry the index of which stood at 107. The UK 1989 average was 107.

The latest results from the SCBS for the food, drink and tobacco sector show that a balance of 17% of respondents are more optimistic about business than three months ago. Orders and sales have been strong with a balance of 62% of firms showing an upwards trend for both of these. This is expected to continue. All categories of orders and sales have exhibited positive balances. This, too, is expected to continue.



Investment decisions have been revised upwards for plant and equipment by a net 17% of responding firms and balance of 21% have revised investment decisions upwards for buildings. 50% of firms thought orders or sales would most limit output over the next three months and capacity utilisation is currently 83%.

A balance of 28% of firms have reported an increase in employment over the last three months and a net 21% expect this to continue throughout the next quarter.

Cadbury Schweppes has taken over Perrier, the French mineral water company for £125 million, taking their share of the French soft drinks market to 16%. The £125 million is being paid in cash borrowed at French rates of interest. It is thought that the acquisition will strengthen Cadbury in the still drinks field and may create the possibility of marketing the Oasis brand (one of the Perrier products) in Britain. The deal also covers the Bali and Atoll brands and the bottling rights for Gini, a lemon drink product. In the last two years Cadbury has already taken over the American soft drinks firm Crush International, Trebor the mints producer and Basset Foods who make liquorice allsorts.

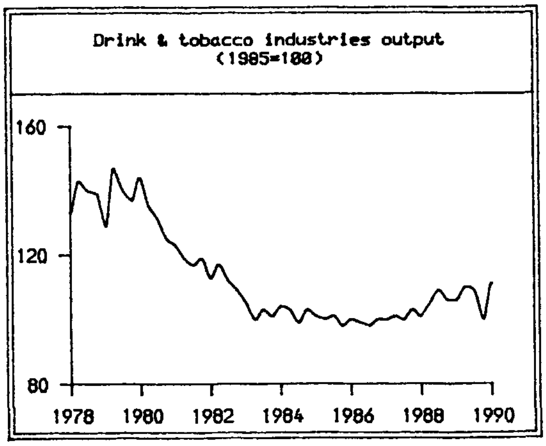
In July Lees the confectionery group announced a drop in pre-tax profits from £410,000 to £310,000 for the year to March and has stated that it will close the Port Glasgow factory of its subsidiary Fullers. 60 people are employed there and all have been given the opportunity to relocate to Coatbridge. It is expected that only 30 will make the decision to move. Lees was suffering from trading problems from over a year ago and also experienced a fall in last summer's sales. The Chairman has said that all these problems are now in the past and the group have since improved performance and sales. He expects to announce progress at the interim stage. Margins have increased through cost controls and increased prices.

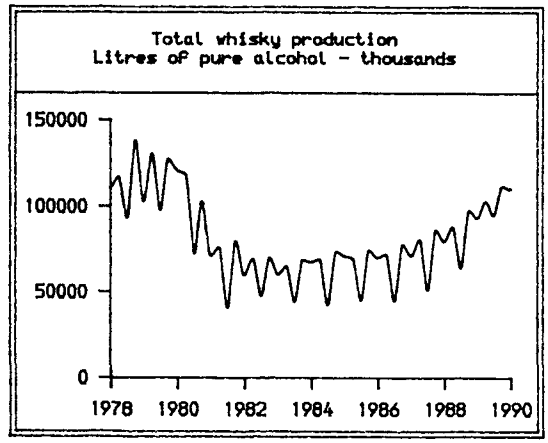
Campbell the US food group are putting up for sale one fifth of their $1 billion European turnover in an effort to improve the earnings of the group. 19% of headquarter staff have also been removed. Profits rather than sales are now being emphasised and, as a result, low margin product businesses, such as D Lazzaroni, the Italian biscuit makers, are being sold. Campbells will now concentrate on soup and frozen convenience foods in the UK, biscuits in northern continental Europe and some "opportunistic" markets e.g. gourmet food distribution in West Germany. UK manufacturing sites have been cut from eight to four, seven cold storage facilities have been consolidated into two and the product range has gone from 700 to 355. The company's previous poor performance has resulted in rumours of a takeover and has split the members of the company's founding family into 2 groups - those in favour of and those against remaining independent.

The management of Crawfords are to take it over from United Biscuits in a move which will restore the Scottish bakery's independence. It will once again be known as DS Crawford and will employ more than 1,300 people in two bakeries, 111 retail shops and 9 restaurants. These will be managed from Leith at the main bakery. The businesses last year had a turnover of £17 million. The Crawfords biscuit operation is not included in the sale.

Fitch Lovell who manufacture and distribute food have merged with Booker, their main rival, for £308 million. While the merger will create a large organisation with a market capitalisation of more than £1 billion, it is not expected that there will be any problems with the Monopolies and Mergers Commission due to the fragmented nature of the markets the two companies operate in. It is likely that some of Fitch Lovell's food manufacturing operations will be put up for sale to allow the group to concentrate on food distribution and fish processing.

appetite of the Japanese for malt whisky following the reduction in the level of tax discrimination against Scotch whisky imports.





The French drinks and luxury products group Louis Vuitton Moet Hennessy (LVMH) is raising its share in Guinness from 12% to 24% making it the largest shareholder at a cost of £850 million. Each company will now have a 24.1% share of the other which will protect both of their joint distribution arrangements in the Far East, the US, France and the UK. The estimated saving in costs to LVMH from pooling its distribution networks with Guinness is thought to be in the region of FFs 200 million in the first year of operation. It is unlikely that either of the companies will attempt to increase their shares in the future.

WHISKY

Exports of Scotch whisky in the first six months of 1990 fell by 4.2% compared with the first half of 1989, to 111.8 million litres of pure alcohol (LPA). Most of the fall was accounted for by a reduction in exports of bulk blended whisky to 16.3 million LPA, generally seen as a continuation of the move towards higher margin bottled-in-Scotland whisky. However, it is worth pointing out that there was also a fall of 2.3% in bottled-in-Scotland blends, the mainstay of the industry; this is the first such half-year fall since 1984. Perhaps more surprisingly, half-year exports of bottled malt whisky fell slightly for the second year running, in sharp contrast to the meteoric rise of such exports in the early and mid-1980s. This would appear to be at odds with the industry's wish to concentrate on high value-added products, and with the reportedly insatiable

By contrast, production of whisky continues to expand at considerable speed. Total production in the first quarter was 110.5 million LPA, over 18% higher than production in the first quarter of last year, and the highest first quarter production figures recorded for a decade. Further expansions of output are likely with the reopening by United Distillers of two distilleries mothballed in 1985, Teaninch and Royal Brackla. This forms part of UD's avowed aim of doubling its distilling capacity in the next three years.

It is too early to say if there is to be a levelling off of the faltering upturn in the world sales of Scotch whisky evident since 1985, and at the moment any such notion is unlikely to be causing undue worry to distillers. Improved margins on exports last year resulted in a 14% increase in the (nominal) value of total exports despite the drop in volume, and the Scotch Whisky Association has argued that comparisons of export figures for the first half of 1989 are invidious because of stocking-up in Japan at that time in anticipation of tax liberalisation. While there may be something in this latter point, it is worth stating that the SWA did not make any mention of this stocking-up at the same time last year, when healthy first-half export figures were being announced. The more interesting issue, however, will be whether distillers will be able to maintain good profit margins in the near future if the export market does begin to falter and more and more supply comes on line.

Past Commentaries have mentioned the dispute between distillers of 'normal' strength whisky and those producing the lower strength (and usually cheaper) version of the same product. The EC has now sided firmly with the major whisky producers, and decreed that any product bottled within the EC described as whisky or Scotch must have a minimum alcoholic strength of 40% by volume. No decision yet has been taken on what to call the lower strength product, which is unlikely to disappear as long as there is consumer demand for it. Indeed, this will be a major test of the whisky industry's implied claim that consumers were being conned into buying an 'inferior' product without knowing that it contained less alcohol than a conventional bottle of Scotch. It has never been clear that this really was the case, but now consumers will be able to make up their own minds. It could be argued that a much greater problem exists outside EC countries, where many more dubious practices and straightforward rip-offs are employed in an attempt to cash in on the quality of Scotch whisky; but here regulations are much more difficult to enforce.

METAL MANUFACTURING

This quarter brought BS's AGM and the announcement by Scottish Secretary, Mr Malcolm Rifkind, of a wide-ranging review of the prospects for the Scottish steel industry. The appraisal is to be conducted by the SDA and is expected to be completed in the first quarter of 1991. In addition, a study conducted by Steel Research International for Motherwell District Council is nearing completion and results are expected to be available in late September or early October.

Such appraisals are to be welcomed as necessary inputs into the steel debate in Scotland. As outlined in previous Commentaries, approaches and solutions to Scottish steel have proliferated as the Scottish Steel Lobby has progressively fragmented. However, two broad camps have emerged - those pursuing solutions within BS and those who wish to see a break up of BS. Within both factions there are advocates of new steel-making technology with considerable current interest in the thin slab casting technique which has been advocated by this Commentary since the mid 1980s. In addition, the SDA is widely expected to review the potential of direct smelting techniques, the likely timescale of large scale adoption and the possibility of siting new steel processing technology at Ravenscraig or Hunterston.

Taken together, these studies will clarify considerably the prospects for Scottish Steel and present evidence on the correctness or otherwise of BS's evident decision to abandon steelmaking north of the Border by the mid 1990s. In particular, the SDA enquiry will allow the various proposed options to be fully analysed and evaluated. The currently available information set is not sufficient to eliminate unfeasible propositions and options. The cool response to the announcement of the SDA study in certain circles is puzzling. It is especially curious given that those who find the SDA's proposed strategic audit "an irrelevance and red herring" are normally to be found demanding such enquiries and stressing the need for strategic planning in a Scottish context.

Mr Rifkind's announcement is therefore to be welcomed. The SDA study will clarify whether there is a future for Scottish steel and, if so, the broad direction through which a future may best be secured. If the SDA adopt our recent proposals and employ internationally reputable steel analysts the conclusions of the study will be difficult to ignore both in Scotland and within the London based steel establishment. One way or another, the Scottish lobby will be forced to face up to the realities of Scottish steelmaking and to converge upon any feasible options or admit defeat.

We remain optimistic about the medium term evolution of steel demand. This Commentary has consistently pointed out the cautious nature of BS forecasts of steel markets and remains sceptical of the projections to 1995 furnished by the EC as part of their latest General Objectives for Steel. The EC estimate that EC liquid steel production will range between 138.3mtpy and 143.3mtpy in 1995 implying a capacity utilisation of between 74% and 77%. In terms of rolled products, the EC expects a better balance of demand and supply in flat products although a poorer outlook is projected for reversing mill plate. In plates, capacity utilisation is expected to be circa 65% as opposed to 75.6% - 76.9% for flat products as a whole. Excess supply in long products is projected to persist at high levels thorough to 1995 with capacity usage lying in the 63% - 65.3% range.

The EC does not have an impressive record with either its short or medium term forecasts. These recent projections may be unduly pessimistic and understate the strength of steel markets following the current downturn. This Commentary regularly highlights the views of the New York based Paine Webber - World Steel Dynamics forecasters. Last autumn, we indicated that this body continued to indicate that "steel shortage conditions would emerge world-wide in the mid 1990s".

At the Brazilian Steel Industry Congress in August, Mr Peter Marcus, Senior Vice President of Paine Webber restated and reiterated this argument. Marcus argued that the Gulf Crisis may prolong the current slowdown but that the medium term outlook remained favourable. He stressed that effective world steel capacity is presently 521mtpy and that production is circa 485mtpy. Given this, an upturn in demand would soon engender a shortage of products and a strong market for slabs, coils and other semi-finished material. Marcus forecasts that world trade in slabs will grow from a current 8mtpy to 15mtpy by 1995. It is the likely emergence of such market buoyancy which underpins our optimism about a continuing BS presence in Scotland into the 21st century. Alternatively, such markets may provide a base demand for any incoherent Scottish based steel business spun off from British Steel. The MDC and SDA studies will provide the authority for such notions by testing them against more plausible demand scenarios than that presently entertained by BS or the EC.

The 1990 British Steel plc AGM took place in London in July. BS Chairman, Sir Robert Scholey, had good news to present. Profits increased in 1989-90 by 24% over the previous year to total £733m. In addition, Sir Robert had good news on the European front with the purchase of Klochners Manstaedt Special Sections division and with further acquisitions in prospect, both in Europe and the USA. Indeed, BS has subsequently bought access to the Spanish distribution network by purchasing a 40% share in Aristrain. Aristrain is Spain's third largest steel concern and specialises in long products, most notably sections. Aristrain also manufacture modest quantities of electrical steels and welded tube, both derived from hot-rolled coil. In addition, BS is said to be in negotiation with the disintegrating US Steel and may well purchase facilities or become involved in joint ventures in the American market.

Previous Commentaries have supported attempts by BS to purchase European and North American capacity. Our rationale is that BS would require further rolling and processing capacity to fully utilise its UK oxygen steel capacity. However, to date, the overseas acquisitions have not had this effect. Although BS were widely expected to supply Troisdorf from Lackenby and Scunthorpe, this will not happen immediately. BS currently do not have the bloom and billet capacity to feed their acquisition and are prevented by an existing contract from placing UK hot rolled coil at the works. In Spain, the likelihood of phasing out local feed is circumscribed in the short-term by political considerations. However, both such sources for UK steel may open up as these operations are rationalised and intregrated into BS operations. This would constitute a future increase in BS internal market for slabs and semis.

At the AGM the Standing Commission for the Defence of the Scottish Steel Industry were at the centre of attempts to promote the candidature of Sir Kenneth Alexander to the BS board. These attempts were defeated. Indeed, it is certain that BS worked extremely hard to defeat and discredit Sir Kenneth's challenge. Thus, in Metal Bulletins hot line section (effectively a diary) readers were warned that Scots were determined to make "a scene" at the AGM and that Sir Kenneth was "an arch proponent of the hot strip mill". None of these accusations was true ex ante or ex post. However, in the ballot Sir Kenneth was roundly defeated by the large institutional shareholders. In our view, the need to have access to internal BS information and thinking in order to evaluate the present strategies for Scotland is fully justified given the likely consequences of BS plans. Given his stated position, Sir Kenneth deserved better and this whole incident reflects badly on BS and particularly Messrs Scholey and Llowarch, who seem to have totally distorted the aims and objectives of Sir Kenneth's candidature.

Despite this setback we would urge the Standing Commission to persist in attempting to influence BS's major shareholders and to place a director on the BS board. Given the US trend towards institutions placing independent directors on corporate boards to assess strategy and safeguard their investment, we believe that Scottish interests should persist in this endeavour. However, perhaps it would be best to inform institutions of the legitimate concerns voiced by the Scottish lobby and attempt to persuade the institutions to place their choice on the BS board to assess the situation. This would entail a campaign to educate and inform the institutional shareholders and attempt to gain their confidence. Again, major authoritative studies such as those of MDC and the SDA may be invaluable in this respect. It is not yet clear if and how the Standing Commission will proceed in this matter.

At present, the Standing Commission is preparing a 5 point submission to the Office of Fair Trading requesting a referral of the HSM closure to the MMC. In our view, such a course does not have a high probability of success. There seems no political will to scrutinise BS closely and the idea has few backers in Whitehall. Any such enquiry would cast doubt upon the efficacy of the 1987 privatisation exercise and be embarrassing to the Government. In addition, any recommendations would necessarily involve a break-up of BS. Whilst this could be done via contracts to specify claims on throughput at shared processing facilities, it would be an explicit affirmation that the privatisation of BS as a single unit was incorrect. For such reasons we are not optimistic about this development. Further, we see no possibility that BS would consent to independent valuations of the Scottish assets which in our view will never be voluntarily sold. However, we support these calls because they will focus attention on the clearly inappropriate nature of the UK steel policy and the damage done to the industry by a premature and inappropriate privatisation. In our view, a change of government would be necessary but not sufficient to get such activity underway.

In the short run, decisions on platemaking and tube production are imminent. The plate mill working group was due to complete its investigations during the summer and these could be placed before the BS board at either the September or December meetings. It is our view that both the Glasgow University study and the Scottish Office paper are correct in their assessment that a refurbishment of Dalzell presents a strong commercial option for BS. The situation in seamless tubes appears hopeless. The Clydesdale Works requires a new mill to compete effectively. However, there is already a massive surplus of tube-making capacity and BS has failed to find a European partner. A closure announcement is now inevitable and this will happen before Christmas.

MECHANICAL ENGINEERING

The index of production of the Scottish mechanical engineering industry stood in the year to the end of March 1990 at a level 3% higher than it had in the previous twelve months. While the first quarter 1990 figure was still 15% below the 1985 average output level, this provides further evidence that the decline of the industry has been checked. The good order books recorded by many of the major firms and discussed below support this view.

The level of employment in the Scottish engineering, metal goods and vehicles industries remained static in the year to March 1990. This is very similar to the performance of Great Britain as a whole, as are the production figures. However, employment in these sectors is declining fairly rapidly in Greater London and South-East England. The fact that Scotland is not picking up these displaced jobs may indicate that firms already established in Scotland are performing well but that too few are being attracted north of the border.

The major question of importance is how well will the Scottish industry fare during a recession in what is generally acknowledged to be a highly cyclical sector. The problems caused by high interest rates, increasing inflation and an appreciating exchange rate existed prior to the start of the Gulf crisis. This has already caused a further revaluation of sterling and is likely to lead to increased inflation and slower growth in many key export markets. Some Scottish firms have considerable exposure to the Persian Gulf area. The higher oil price and subsequent increased North Sea activity are likely to act in mitigation.

Since many major engineering firms have considerable order books, the squeeze on them is likely to be postponed for some time. The first indications of problems will therefore come from smaller companies, as subcontracting work is returned to the major firms. Few companies are likely to attempt to retain labour in the absence of orders to the extent seen during the early 1980s.

Scottish mechanical engineering firms continue to be involved in new generating plants south of the border. Two plants recently authorised involve Clydebank manufacturers. In Rugby, a 380MW plant is to be manufactured by John Brown Engineering. In Brigg, South Yorkshire, Berisford Bristar are engineering a 240MW turbine. While the majority of authorised plants are unlikely to be constructed, these events remain positive news. John Brown is also building the turbines for Scottish Hydro-Electric's generating station in Peterhead and for Occidental Petroleum's redevelopment of the Piper North Sea field. Increased employment is a possibility.

The Weir Group's report for the half year to the end of June showed profits down 3.5% at £11.02m. However, the earlier period had contained the receipts from the sale of the holding in Howden's. When this is taken into account, profits were 16.9% higher on turnover up 24.7%. Weir's order books are considered to be fairly healthy, with much of the demand originating from the water and oil industries. The resurgence in oil-related activity in the North Sea as well as in the Gulf of Mexico is expected to help the group. In common with other Scottish engineering firms, the pound's higher value is considered a threat to continued competitiveness both within and outside Europe.

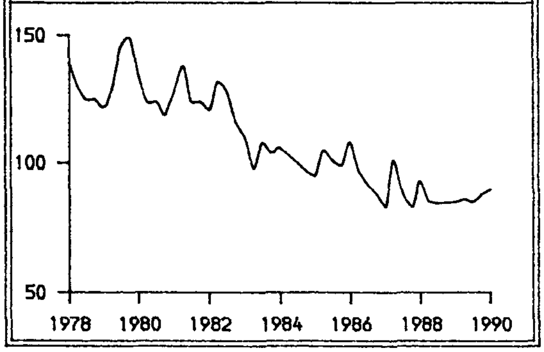
Howden's own pre-tax profits increased 29% to £22.15m on turnover of £315.52m. Inflation and interest rates join uncertainty over the sterling interest rates as the company's main economic worries. In addition, there is an element of uncertainty over the future level of environmental and infrastructure projects to be undertaken. These are both highly sensitive to government policy decisions. The company appears to remain confident, despite acknowledging general economic problems.

Howden's acquisition and restructuring policy is considered by the company to have been successful. The Danish Great Belt project, associated with the purchase of the German tunnelling company Wirth, has required higher borrowings than expected, leading to higher interest charges. The company has placed claims for redesign costs on this project. The four Channel Tunnel boring machines are operating well.

Howden's Glasgow factory has disappointing order levels, although the £3.3m investment programme is safe and a tunnelling machine is being built for the Genoa Metro. The Howden Sirocco air and gas handling equipment subsidiary sees opportunities for flue gas scrubbing projects in Eastern Europe.

It needs to be pointed out that funding for such projects will largely have to come from Western Europe and are likely to be strongly influenced by political and general economic developments.

Mechanical engineering output (1985=100)



Babcock International's profits in the year to the end of March were up 10% at £42.62m on turnover up 19%. Within the Energy and Manufacturing Division, profits fell £3m or 24% to £9.44m. However, no profits had been taken on two major projects, including the Drax flue-gas desulphurisation scheme. There is considered to be continuing possibilities in this area, despite the recent scaling down of government interest. A contract worth £30m has also been won for waste heat recovery plant at the Killingholme, Humberside power station being built by Siemens.

This positive picture has been overshadowed by the need to stop work on the £158m power station for Al-Anba, Iraq. This project was of strategic importance to Babcock and was moving from the engineering to the manufacturing phase. Two hundred people were working on the project at Renfrew. Babcock's reaction has been to reorganise the workload and to bring work back from subcontractors. The possibility of redundancies at Babcock itself has also not been excluded.

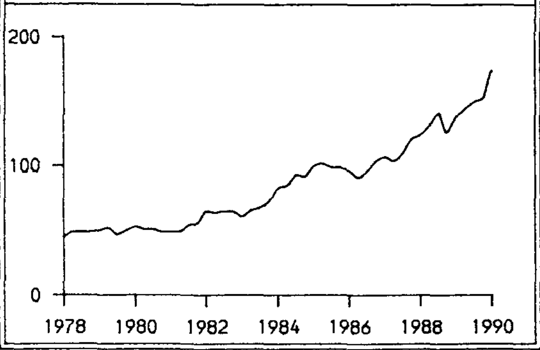
In its parent company's annual report, Anderson Group have given profits at £8m, an increase of 11%. Eight hundred jobs have been lost in the last year.

YARD Consultancy have announced 50 redundancies out of a workforce of 800 and state that more could follow. This largely results from the government's defence expenditure moratorium and indicates that the firm is still strongly dependent on defence contracting, despite its attempts to diversify into the offshore, nuclear and production systems industries. This decision was taken prior to the Gulf crisis.

ELECTRONICS

The Index of Production for Electrical and Instrument Engineering in Scotland leapt to 174 in the first quarter of 1990 compared to 153 in the last quarter of 1989 and 144 for 1988 as a whole. Although early figures should be treated cautiously as they are frequently subject to revisions, this jump is substantially above that recorded for the UK as a whole, which increased grow from 129 to 131 between 1989 Q4 and 1990 Q1 and is also well above that recorded for all manufacturing which increased from 115.6 to 122 in the same period.

Electrical and instrument engineering output (1985=100)



Hopes that a flourishing indigenous electronics industry would be spawned by Scottish companies serving the network of overseas-owned plants have suffered two setbacks in the recent period, both as the result of acquisitions. There was, firstly, the purchase of ITEQ Europe by Ankor Anam,discussed briefly in the last issue of this Commentary. ITEQ was formerly a subsidiary of Indy Electronics which was bought out by its management three years ago amid great hopes that its experience and established product range would be the basis for a strong, independent Scottish company. Anam is a Korean company, reportedly the world's largest semiconductor manufacturer, which employs 60,000 in semiconductor manufacture in the Far East, and Ankor is its American subsidiary responsible for sales and marketing and now, with the acquisition, for assembly in Europe.

There seems little doubt that the acquisition has been prompted as a fast method of guaranteeing an outlet into Europe in the run up to the Single European Market. It is also of some significance that this is the first major entry in to Scotland by a Korean company, albeit one "placed " via the United States. This reinforces the growing Far Eastern, largely Japanese, network of plants in Scotland. Adding the Ankor plant to those presently owned by NEC and Shin-Etsu, there is now a real concentration of semiconductor manufacturing in Scotland. Ankor is to invest £20m in Irvine, reportedly creating up to 700 jobs.

Perhaps a more significant loss of sovereignty, however, is the purchase of Domain Power by the American company Switchboard. Domain was the first company formed, in 1988, as a result of the SDA's new "pro-active " strategy, which was designed to plug gaps in the supplier market through the creation of new Scottish companies, in this instance to supply computer drive units. The failure of Domain as an independent entity is clearly unfortunate in publicity terms and the Agency has now altered the emphasis of its strategy towards helping existing firms to supply the industry. In addition, it has admitted that its portion of the sale proceeds will not cover its original investment (the other backers who have also lost money are Investors in Industry and Barclays Bank)

The Domain failure is doubly disappointing in that it was conceived as a fully fledged design, marketing and manufacturing operation which would be under Scottish control, although Switchcraft have pledged that these operational aspects will be retained. The subsidiary, which will be renamed Sorensen, will also see a £3.5m investment, expected to create up to 400 jobs. Given that the original level of employment at Domain was around 40, the social return from the Agencies original investment begins to look a little healthier. The positive side of the loss of sovereignty is the investment and employment which foreign ownership will bring and the same applies to the Ankor takeover of ITEQ, where the Scottish operation is now allied to the resources of a much larger company. In the Domain case, it should also be remembered that the net effect of the SDA's efforts has been to create a company out of nothing, even if one of the original objectives has not been met.

What both examples illustrate are the difficulties faced by small firms in the electronics industry. A recent article on this subject[1] argued that the acquisition or failure of many smaller hi-tech companies started in Scotland since the seventies can be traced to the enormous costs involved in generating a series of product innovations - one good idea may be sufficient to get a company off the ground, but firms will soon come up against the combined might of the American and Far-Eastern giants, with vastly greater resources than are available in Scotland - "in essence, technology is a hugely expensive business, requiring the input of larger amounts of cash over a longer period to attain viability and then profits than any other type of business known to man. Because of this, technology is a market for the big boys"[2]. Rodime is perhaps the prime example of a Scottish company which attempted to become a significant force in the global market and which is currently paying the price of its attempt.

Significantly, the article also argues that many of the companies involved benefited significantly from acquisition because of access to the resources of the new owners who would have financial, marketing and other strengths far beyond the capabilities of independent firms. Unless and until options such as licensing become common, it is very likely to be the case that Scottish technological strengths in innovation are best exploited in conjunction with the complementary resources of foreign companies.

Elsewhere, troubles continue to mount at Ferranti, where the company is still in the throes of extricating itself from the ISC imbroglio. The defence division, Ferranti Defence Systems which was recently sold to GEC, has announced a reduction of 550 jobs in Scotland because of the loss of a major US contract, believed to be to supply laser equipment for the F-18 fighter aircraft. The company claims that this is unrelated to the problems concerning ISC and was because of late delivery. If this is a one-off loss as the company claims, it remains the case that the remaining employment at Ferranti in Scotland should be secure in the wake of the decision that it is to build the laser system for the European Fighter Aircraft.

The rest of the Ferranti's Scottish operations (which were not sold to GEC and has now been renamed Ferranti International) seem likely to avoid any of the 1,600 job losses announced in July. However, as part of Ferranti International restructuring, the operational autonomy of its Scottish operations at Livingston and Dalkeith is to be removed, resulting in another loss of economic sovereignty from Scotland. The company will now be controlled by the Industrial and Commercial Division, based in the South-East.

Finally, recent issues of this Commentary have discussed the growing importance of the portable telephone market in Scotland. The latest occurrence is the decision of GPT at Kirkcaldy to market its cellular system in the United States. The CT2 system is already in use in most European markets two years after production, following GPT's investment of £6m.

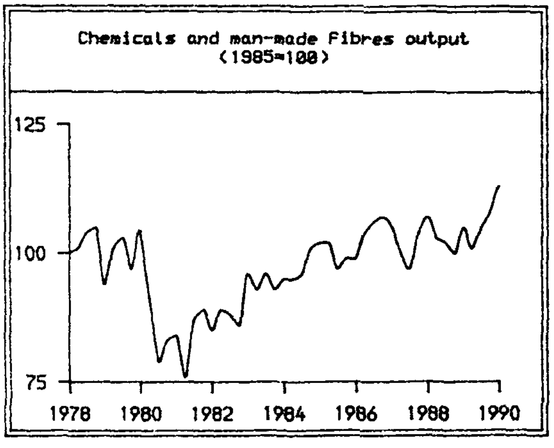
1. Scottish Business Insider, Vol 6, No 9, September 1989, pp 2-5.
2. op.cit, p3.

CHEMICALS AND MAN-MADE FIBRES

The Scottish index of production and construction figures, just published, for the first quarter of 1990 show that the chemicals sector started the 1990s at its highest level for many years; 113 which is 8 points up on the same quarter in 1989 and 8 points higher than the 1989 annual figure of 105.

The UK first quarter figure of 120 is 2 points up on the same period in 1989 and only 1 point up on the 1989 annual figure. It will be interesting to note if the figures for the second quarter of 1990 reflect this as Scotland closing the gap on the rest of the UK as a whole, or if it is merely a temporary aberration.

The latest Scottish Chambers' Business Survey reporting for the three months to July 1990 shows that a balance of 59% of respondent firms are less optimistic about the present business situation than they were three months ago. A balance of thirty per cent of firms responding report a fall in actual new orders in the three months to July whilst a balance of 12% expect new orders to increase in the three months to October. Balances of +55% and -25% were recorded for actual and expected sales over the same period. These balance figures would tend to indicate that there is a slowing down of activity in this sector. Also around one third of reporting firms expect to run down stocks of finished goods, work in progress and raw materials in the three months to October. Capacity utilisation was reported at 89% for the three months to July whilst actual and expected employment was up for a balance of 1% of firms. A negative balance for investment intentions was reported indicating that a balance of 29% of firms are revising their investment in a downward direction. The major limitation to output for more than half of firms reporting was cited as sales/orders.



The Advisory Council on Science and Technology (ACOST) has stated in a recent report* that the government should adopt a more proactive role in the development of biotechnology in the UK. The report highlights non-technical factors as the main limitations to the development of biotechnology. The report called on the UK government to resist current EC proposals to impose discriminatory restrictions in genetically engineered products. The ACOST group believes that "skill shortages represent the most serious potential limiting factor" for UK biotechnology. ACOST recommends that a co-ordinated approach with industry is necessary to address the shortage. They are also concerned about shortages in enabling technologies and feel that the research councils should consider how to maintain the British lead in molecular modelling and crystallography.

The UK chemical industry is growing increasingly concerned about life under the imminent integrated pollution control (IPC) system - the corner stone of the government's environmental protection bill. Diane Brown, environment executive at the Chemical Industries Association (CIA), says that IPC is in danger of being discredited, despite government hopes of selling the system as a model for EC legislation. The IPC system adopts the polluter pays principle and from January 1991 companies will have to obtain and pay for licences from Her Majesty's Inspectorate of Pollution (HMIP) prior to commissioning potentially polluting processes. Controls on air, land and water pollution come under HMIP's umbrella and it is felt by both environmentalists and the chemical industry that they are not up to the job. Diane Brown is particularly alarmed at the lack of consultation. HMIP are seen as being obsessed with a "hands off" approach. Environmentalists are concerned that HMIP are not independent enough of government. It is possible that this autumn's environment White Paper could confer "agency status" to HMIP but Brown argues that government should keep firm control of the inspectorate. She feels that further separation of responsibilities for legislation and implementation could lead to future problems. In addition she feels that HMIP focuses too much on processes and technology rather than actual pollution levels. She claims that this focus could prevent companies - especially in the speciality chemicals sector - from responding flexibly to market pressures.

The Chemical Industries Association (CIA) has launched a campaign to retain the government run intra-EC trade statistics service after 1992. They feel that these statistics are indispensable when planning chemical business strategy. The Customs and Excise collect detailed import statistics for the UK's Special Chemical Return and the chemical industry is lobbying the government to press for the extension to other EC countries of the high quality and detail of these statistics.

BP Chemicals is to close its 60,000 t/a acrylonitrile plant at Grangemouth. One hundred staff will be redeployed and customers will be supplied from other sites.

Exxon-Shell have been granted planning permission for the expansion of their Fife ethylene plant at Mossmorron. The expansion is to cost in excess of £400 million and will enable the plant to run on both propane and butane gasses from the North Sea in addition to ethane. Production of ethylene will increase from 650,000 to 900,000 tonnes p.a.

and the plans will also result in 200,000 tonnes of polymer grade propylene being produced.

Ethylene is the mainstay of the petro-chemical industry, derived from either crude oil or gas it drives the production of other more tangible products like the omnipresent plastics (polyethylene and polyvinyl chloride (PVC)) and synthetic fibres (nylon and polyester).

The petro-chemical industry has emerged from the turbulent 1980s, leaner and fitter, thanks to restructuring and the shedding of excess capacity in many of the basic chemicals. However, the present Gulf Crisis and its resultant increase in oil prices has resulted in an upward surge in sterling which will be bad news for exporters who will experience reductions in both volume and value of exports, as foreign markets contract. With so much of the chemicals industry being dependent on oil derivatives as inputs the result will undoubtedly be higher prices and increased inflationary pressure.

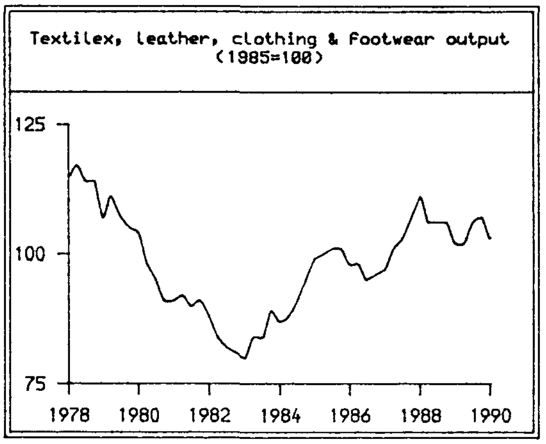
* "Developments in Biotechnology", £8.50, HMSO

TEXTILES

The latest Index of Production figures for the textile industry in Scotland show an increase of 4% from the fourth quarter of 1989 to the first quarter of 1990. The 1990 first quarter index was 103 compared with 102 for the same time last year and a 1989 average of 104. Despite the recent fall, the Scottish industry is performing better than the UK industry which had an index of production of 100 for the first quarter of 1990 and a 1989 average of 99.

Once again the results from the SCBS for the textiles sector are fairly pessimistic. A balance of 48% of responding firms were less optimistic about their general business situation than three months ago. The trend in the volume of new orders was, on balance, unchanged over the last three months although a net 16% of respondents expect new orders to decrease over the next quarter. New sales have exhibited a downwards trend for a net 36% of companies but only a balance of 5% expect this to continue. A balance of 40% of respondents thought the trend would be downwards in the volume of sales to the UK over the next three months.

The current percentage rate of capacity utilisation in the sector is 81% and a balance of 31% of firms have revised investment intentions upwards for plant and equipment. 73% of respondents felt that fewer orders or sales would limit output over the next three months.



A net 3% of firms have decreased employment over the last three months and a balance of 8% expect a downwards trend in employment over the next three months. The majority of firms exhibited no change in employment.

In June the European Community (EC) presented its paper on the dismantling of the current import quotas under the Multi-Fibre Arrangement (MFA) to bring the textile industry into line with the General Agreement on Tariffs and Trade (GATT). The EC has dismissed US plans to replace the MFA with a system of global quotas. Their plan is to remove MFA restrictions step by step over a period of time which has yet to be agreed. It is thought that this will be less disruptive than the US plans. The EC scheme allows for countries to negotiate bilateral agreements to prevent import surges during the phasing out period. These would be limited to products and countries which have controls at present. The EC also want safeguard measures against dumping and fakes to be ensured before the MFA is finally dismantled.

The International Textiles and Clothing Bureau which represents 23 developing countries, some of which are major textile and clothing exporters, has called for all trade restraints to be removed in four stages over six years. They suggest that importing countries should remove 11 types of restriction, immediately in 1991, when the MFA is due to be phased out. Other restrictions would be progressively removed over the six years until all trade in textiles was integrated into GATT by the end of 1997. Safeguard measures are also taken into account by the ITCB plans.

The EC scheme has been challenged by representatives of developing countries as virtually maintaining the MFA but with more strict terms. This has been echoed by the Foreign Trade Association, the US National Retail Federation and the US Retail Industry Trade Action Coalition who all want greater liberalisation. Also opposed to the EC plan are the large US and European manufacturing companies who feel that the MFA should be phased out in five three year stages with a provision to discontinue liberalisation if required. They believe that it will take them fifteen years to become sufficiently competitive for a free trading industry.

Imports of footwear into the UK rose by more than 20% to £300m in the year to the first quarter of 1990 according to figures from the British Footwear Manufacturers Federation. Exports also increased to £63.2m but this rise did not compensate for the increased imports. This is not good news for the declining footwear industry which is also suffering from falling demand. Some small firms have gone into receivership and larger firms have cut capacity as well as jobs - 5,000 jobs have been lost to the industry in the past year. Poor retail sales in Autumn and Winter of last year has led to reduced and inconsistent orders to manufacturers creating stock and cash flow problems.

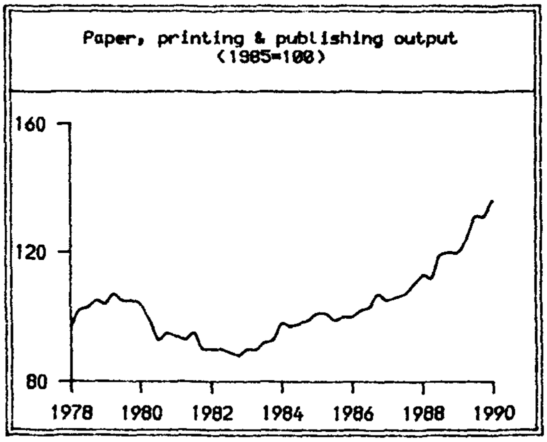
A report from the Economist intelligence Unit anticipates that the non-woven textile industry is on the verge of becoming increasingly internationalised. The field is already dominated by a small number of large firms including Hoescht, Du Pont and Freudenberg and there have been a number of takeovers and mergers. This move is the result of increased competition as growth slows into the 1990s. Growth in the US is expected to fall to 5-6%.

Another Economist Intelligence Unit report has predicted that there will be an increase in demand for clothes and textiles into the 1990s after the sluggish growth of the 1980s. Per capita consumption of clothing fibre is currently 6.7kg. This is expected to rise to 8.2kg in the year 2000 - an increase of approximately 3% each year. Increased demand will help to reduced pressure on the textile industry.

Dawson International have announced a fall in pre-tax profits from £43.05m to £40.36m to 31 March. The problem has stemmed mainly from weak demand for its knitwear products, cashmere supply problems and a high cost investment programme in the US. The group have since restructured their knitwear division and it is thought that supply problems have been resolved.

PAPER, PRINTING AND PUBLISHING

The Scottish Index of Production for this sector stood at 136 for the first quarter of 1990, a 4% increase from the previous quarter. The first quarter index for 1989 was 121, 12% lower than the current index. The UK first quarter figure was 135 showing that, for this quarter, Scottish performance is slightly stronger than that of the UK. This is not in keeping with the general trend, since the UK year average figures have been higher than the Scottish for the past four years.



The results from the latest SCBS show that a balance of 19% of responding firms in the paper, printing and publishing sector are less optimistic about their business situation than they were three months ago. While the trend in the volume of new orders and in sales has been an upwards one for a balance of 9% and 36% of respondents, this is not expected to continue over the next quarter. Worst affected are orders from and sales to the UK.

The trend in the volume of finished goods has been downwards for a net 25% of firms and a balance of

22% expect this downwards trend to continue. The present rate of capacity utilisation is 92% and 55% of firms surveyed thought that orders or sales would be most likely to limit output over the next three months.

The employment trend over the last 3 months has been downwards for a balance of 16% of respondents, but this is not expected to continue, a net 7% expect total employment to increase over the next quarter.

The Commentary has noted the increasingly internationalised nature of British paper production. The latest in a long line of British firms taken over by foreign companies is Reedpack who have been bought over by Svenska Cellulosa (SCA) a Swedish pulp, paper and packaging company. For years British paper producers have had to contend with competition from duty free imports, rising exchange rates, high interest rates and no comparative advantage with regard to raw materials. Another disadvantage, faced by all paper producers, is that the nature of the industry makes large scale investment a necessity with returns coming only in the long term. It is this aspect of the industry which has made Reedpack amenable to the SCA takeover - they wish to build a £250 million newsprint machine at Aylesford, Kent, but know that even with their Canadian partner they cannot afford to go ahead. The takeover by SCA now makes this possible.

SCA have paid £1.05 billion for Reedpack and the top 300 managers, who bought over Reed International to form Reedpack, will make a 34-fold increase in their investment. It is thought that Reedpack is a good company for SCA to take over, both geographically and in terms of products. The deal gives SCA a large share of the European corrugated cases market, makes it second largest collector of waste paper in Europe and also allows it to make newsprint from waste paper. The Kent mill will annually produce 250,000 tonnes of newsprint from 100% recycled fibre.

This aspect of newsprint production is important because it has affected a number of takeovers. There has also been a shift away from mills being cited near forest areas to them being set up closer to the consumer. This stems from a desire to be close to the end market but also, more importantly, to be near the source of raw materials, the waste paper which has been referred to as an "urban forest". The European Confederation of Pulp, Paper and Board Industries has reported that half of the raw material for paper and board production came from recycled fibre in 1989.

The single European market is also an important factor in the recent spate of takeovers. It is seen as a market as large as that of the US and to be cited in Europe will be a great advantage. To be outside may be to have a far greater disadvantage - barriers to entry may rise or there could be accusations of dumping into the Community. This has led to a number of takeovers as countries outside the EC buy companies inside.

Size is also increasingly important, to be a large organisation with economies of scale and therefore a low cost producer is to have a competitive advantage when there is a downturn in the market. The industry increased output every year between 1982 and 1988, however, the signs are that the market is beginning to soften. Larger firms can afford investment which will allow them to remain in a strong position because of their size and level of diversification. This, with the other factors, has led to increased merger activity.

Abtibi-Price, the Canadian Group, are set to acquire North British Newsprint and build a large newsprint mill at Gartcosh near Glasgow. The project will cost £200 million and the main raw material will be waste paper. The Daily Telegraph and Mirror Group Newspapers will be involved in the venture. Abtibi-Price will own 50% of North British newsprint and the two newspaper groups will own 25% each. The mill will produce 220,000 tonnes of newsprint a year and employ 240 people directly. It is almost certain that the venture will go ahead, although Abtibi have put certain conditions onto their involvement. They want engineering studies and cost estimates updated as well as financial arrangements and final approval from each of the three partners. Stirling Fibre expects to provide all the waste paper for the plant, estimated to be about 270,000 tonnes of old newspapers and magazines.

Bowater are hoping to raise £140 million by offering investors one new share for every four held. This will be used to fund further expansion and to bring down debt. They acquired Norton Opax, the specialist printers in 1989 raising borrowing to £246 million. Since then they have sold Crossley Builders Merchants, reducing gearing to 26% from 77%. The group have been accused in the past of lacking direction in their acquisitions and being too diverse.

William Sommerville, the Penicuik based paper maker, have almost doubled profit to £1 million in the ten months to 31 March. James River, the US paper company, took a controlling stake in the company last May. Low pulp prices helped to reduce costs though sales were slightly lower than for the previous year. The firm are investing in an effluent treatment plant and other projects which will increase capacity of its machine for printing high value text and cover grades of paper. They also wish to sell more in European and international markets.

Services

FINANCIAL SECTOR

At much the same time as a private training centre for investment managers was announced in Edinburgh there were calls, most notably by Sir Iain Noble, for Scottish Financial Enterprise (SFE) to adopt a wider role in promoting Scotland's financial sector. Sir Iain urged the creation of an advisory panel to assess possible new directions, suggested some new services that could be created to assist the industry and recommended lobbying, monitoring standards and the possibility of becoming an offshore centre as activities for SFE to investigate or act upon.

Sir Iain's call is a timely one. SFE is a promotional body with a somewhat schizophrenic purpose aiming to promote Scotland as a financial centre and so attract new institutions into the Scottish sector but at the same time acting as a pressure group for existing members who wish to protect their interests; particularly their abilities to trade on the Scottish reputation for thrift and carefulness and, perhaps more importantly, who do not wish to share their access to a restricted pool of trained labour.

It is difficult if not impossible to assess accurately SFE's success as a promotional body since we can never know what would have happened in its absence. The arrival (and departure) of new firms has been a feature of the Scottish financial scene, at least over the last twenty years, as illustrated by the arrival of the banks in the early seventies, so that the use of statistics such as the number of new firms attracted as a measure of success is flawed. It is clear, however, that SFE has been very successful as an association in bringing together the majority of Scottish institutions operating in the financial sector. SFE should now build on this strength by utilising the combined knowledge of the institutions to strengthen and improve the sector.

An obvious area of improvement lies in financial education and training. At the moment we have a range of educational bodies in banking and insurance, for example, that differ in their aims but all of which are teaching and examining across a wide range of similar financial topics to individuals who work in a variety of often interchangeable jobs. Both the educational requirements of the retail banker and the building society employee are very similar as are those of actuaries, accountants and economists working as fund managers. The bringing together of the different professional bodies, or at least their educational aspects, could result in significant improvements in the skill and abilities of the workforce with benefits to all. To be more concrete, how many actuaries are familiar with the vast academic literature on the efficiency of financial markets and its implications for the valuing of assets? And by the same token how many MBA's and finance academics are aware of actuarial work on matching and immunisation? The possibilities for significant improvements in education are there to be grasped and could be given a lead by SFE. The plans by Instate for the private sector Institute of Investment Management in Edinburgh highlight both the possibilities and the needs. Some senior investment managers are concerned that the Americans are far ahead of us in education and training with the result that the majority of innovations arise in the US. Instate is one response to the problems. SFE could provide another by bringing together existing bodies and setting out to adopt the best from each so as to provide an integrated system of financial training with specialist modules for those requiring particular expertise. Scotland was an early pioneer in financial education. The changes in the financial sector have not been matched by changes in the educational arrangements and still reflect the traditional activities of the sector. SFE could give a lead so that education and training in the financial sector better met the sector's needs for the future.

A second aspect of education that could be usefully embraced by SFE relates to consumers. Recent losses to investors, despite our elaborate regulatory system, indicate the continued need to educate consumers in financial matters. Protection from fraud and misrepresentation should be afforded by regulation but education is the only answer for gullible and greedy consumers who believe, for example, that they can invest in completely safe, gilt edge investments that offer yields far in excess of base rates. SFE should not abdicate responsibilities in this area but aim to inform and protect consumers. It is in the long term interest of its members. At the same time it should be considering whether the screening of members might not be advisable. SFE does not have the resources and expertise to offer investors guarantees as to the ability of its members to fulfil their contracts and protect investors but it could perhaps impose minimum standards of behaviour that it expects its members to uphold. If the Scottish reputation is valuable in financial dealings it is surely worth protecting. One way of protecting it is to provide consumers with an avenue for airing legitimate complaints.

The possibilities for SFE do not end with education and consumer protection. Scotland's representation in financial services if heavily concentrated in banking, insurance and investment. Gaps in provision exist particularly with respect to specialist services and advice. SFE is in a unique position to determine what services members need and would support, and could seek to encourage member firms to fill those gaps by encouraging new start-ups and initiatives or by attracting existing specialists in other financial centres to set up in Scotland. The announcement by County NatWest WoodMac that it is to bring some of its stock market trading activity back to Scotland, and the setting up of Roderick Sutherland and Partners to deal with institutional clients, illustrates that unless there are other overwhelming advantages (typically relating to costs or information acquisition) clients prefer to deal with someone they know. SFE needs to look at the activities of its members and predict their future requirements. It could fulfil a major strategic role in planning for, and helping to provide, improvements in the environment and infra-structure in which the firms operate. The recent success of the Association of Investment Trust companies in lobbying the SIB and other bodies on the merits of investment trusts and the inequitable treatment they have been accorded in the past, reveals the scope that exists for an organisation with well defined aims and goals that pursues these aims through every method available to it. The requirements of the Scottish financial sector may be self evident to its own members. They will not however be so evident to policy makers in London and Brussels. The responsibility lies with SFE to lobby and enlighten regulators and legislators.

The possibilities for SFE do not end with these suggestions. We have already noted that many innovations come from the US, a situation that is unlikely to change given the range and funding of financial education and training in the US. However, there is scope for research based on UK and European conditions. Making Scottish firms aware of recent innovation and best practice in the US could also be very useful. Some firms already keep abreast of developments but it is unlikely that the majority do. In short, we would echo Sir Iain Noble's plea for SFE to broaden it activities and rethink its role. Particular interest groups would protest but Scotland as a whole would benefit.

DISTRIBUTIVE TRADES

Since the wholesaling sector serves, as a distributive channel, such a wide range of Scottish markets, it can be argued that the level of wholesaling activity is a useful "concurrent indicator" of aggregate demand in Scotland as a whole.

In this context, the August SCBS finding that a net 38% of wholesaler respondents recorded real increases in sales during the second quarter suggests that, in macroeconomic terms at least, Scottish demand remained buoyant between May and July in spite of a continuing high interest rate regime.

As in the first quarter, there were net gains in both full-time and part-time wholesaling employment, May-July (+9% and +21% respectively). Reflecting six months of continuing good performance, in July Scottish wholesalers were, on balance, more optimistic about the general business climate and had made upward revisions to their investment intentions.

At the time of the Scottish Chambers' Survey, which was before the Gulf crisis and its economic ramifications, a net 31% of wholesaler respondents expected further sales growth in the third quarter. However, a small net majority predicted that employment would fall, entirely concentrated in losses in full-time jobs.

The geographical distribution of August SCBS wholesale responses is given in Table 1. The table shows that there were wide geographical disparities in second quarter wholesale performance, with the strong sales growth revealed as essentially a North Eastern phenomenon. This presumably reflects local market conditions in these areas, e.g. buoyancy in the oil-related sector.

Table 1 Geographical Responses to August SCBS: Wholesaling

	G	E	D	A	All
	%	%	%	%	%
Overall Confidence	-8	-11	+56	+11	+11
Actual Sales	-4	+6	+56	+79	+38
Expected Sales	+22	+21	+4	+49	+31
Actual Employment	-15	+11	0	+42	+9
Expected Employment	-3	+22	-40	+4	-5
Investment Intentions	+21	+11	-30	+25	+11

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

A net 38% of August SCBS retail respondents also recorded net sales growth in the three months to end July. This is lower than the corresponding SCBS figure in May (+62%), which provides limited indications of a recent slow-down, but not reversal, in the growth of Scottish consumer demand. In fact, only 19% of SCBS retailers reported that sales had actually fallen during the second quarter.

As in the first quarter, and in accordance with expectations expressed in May, a small fall in SCBS retail employment was recorded between May and July. Net losses were entirely in full-time jobs, with part-time employment remaining static.

Bearing in mind the timing of the survey, retailers were optimistic about further sales growth in the third quarter; however a balance of 15% expected additional job losses, concentrated in full-time employment.

The pattern of retail responses to the August SCBS by Chamber area is shown in Table 2.

Table 2 Geographical Responses to August SCBS: Retailing

	G	E	D	A	All
	%	%	%	%	%
Overall Confidence	+19	+12	+3	+52	+16
Actual Sales	+57	-13	+42	+56	+38
Expected Sales	+36	+19	+11	+53	+21
Actual Employment	-28	-15	+9	-1	-4
Expected Employment	-30	0	+13	-26	-15
Investment Intentions	+27	+19	+16	+26	+15

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

Good second quarter sales performance was enjoyed in all area except Edinburgh. The contrast between Glasgow and Edinburgh might reflect changes in spatial shopping habits i.e. consumers in central Scotland choosing to shop in Glasgow rather than Edinburgh.

TRANSPORT

Road

The government's aim of creating a competitive market in bus transport via the sale of the Scottish Bus Group (SBG) subsidiaries is proceeding briskly. So far, four of the ten subsidiaries have been sold and offers for Kelvin Scottish are to be invited soon. The government hopes to complete the entire sale programme by next April.

Fears that the industry would be split between the five dominant UK companies, four of whom are operated from England, have so far failed to materialise. Of the four companies sold so far, three - Lowland Scottish, Eastern Scottish and the long distance operator Citylink - have been employee/management buyouts. The other, Midland Scottish which operates a fleet of 279 buses serving Central region and parts of West Lothian, has been bought by Grampian transport, itself a buyout which operates the services formerly run by the Aberdeen Council.

The sales which have occurred so far therefore satisfy the governments intention of creating a series of locally based companies. While it should be emphasised that local ownership is not necessarily a synonym for efficient local bus services, it is apparent that the success to date in creating locally-owned companies is due in no small measure to the conditions surrounding the sales - no bidder is allowed to to own more than two companies, these must not be contiguous and, most importantly, internal bidders have been allowed to proceed at a 5% discount. Despite this, it is difficult to believe that the big five companies (Stagecoach, Drawlaine, Badgerline, SEBIL and Proudmutual) will not be successful at some stage and a hesitant prediction at the present time is that the future competitive structure of the bus industry will be a mixture of subsidiaries and local companies. The failure of the internal bid for Midland is proof that the government is willing to allow outside bids to succeed.

Further evidence of the governments determination to create a competitive structure in bus transport came with the Secretary of State's reaction to the Monopolies Commission report into the activities of Stagecoach in the South of England. The company's acquisition of Portsmouth Citybus while it owned Citybus's major competitor, Southdown, was referred to the Commission in February. The Commission has ruled that the interests of competition would be best served if Stagecoach agreed to restrictions on fares and service frequency. However, the Secretary of State has asked the Director General of Fair Trading to negotiate a divestment of the Citybus operation, a move which shows very clearly the government's determination to use all the available legislation to impose a competitive structure on the industry.

Air

There is at present a great deal of confusion surrounding the future of British Airways freight distribution services at Prestwick. Following an announcement that services were to be switched to Glasgow, the company cancelled this almost immediately and said that it would be keeping an open mind on the subject until after a meeting between Lord King and a group of local MP's in mid-September. Presently, about 20% of BA's Scottish business is centred around the Prestwick area compared to 50% in Central Scotland, handled through Glasgow, although some freight from Heathrow is taken to Prestwick for onward distribution throughout Scotland.

What is clearly of great concern to locals is the possibility that BA's withdrawal from Prestwick could in turn spawn further withdrawals by other freight operators. Our view is that while any decision by BA to withdraw would be a blow, it need not imply serious adverse consequences for the overall viability of the airport. BA is not the only freight operator to use Prestwick's services and its strengths in this respect were emphasised as recently as last year when TNT sited its European freight distribution centre at Prestwick in preference to either Edinburgh or Glasgow. The company specifically cited Prestwick's superior customs clearance facilities, room for expansion and proximity to the British Aerospace factory as the reasons underlying its preference, and we could add to these the runway length and fog-free character. Additionally, it should be noted that freight is not the only activity carried out at Prestwick. BA's decision, whatever it turns out to be, should be seen in the above context.

The Labour Market

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

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

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

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

The most recent employment data (available only on the basis of LFS induced revisions) are for March 1990, and those are also reported in Tables 1 and 2. Overall, total employees in employment increased by 39,000 (2.0%) in the year to March 1990. Male employees in employment rose by 8,000 (0.8%), and total female employment increased by 30,000 (3.2%). Part-time female employment rose by 6,000 (1.6%), whereas full-time female employment grew by some 24,000 or 4.4%. If part-time is interpreted as "one-third time", then full time equivalent employment rose by about 34,000 (2.0%). This employment gain is rather less than the annual growth to December 1989, but the growth in male and female full-time employment remains encouraging relative to past experience. Only two thousand of the increased employment occurred in production and construction industries, and 37,000 in services, a pattern consistent with the much greater increase in female employment (especially full-time female employment).

Over the year to March 1990 the biggest employment

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

	Male	Female		Total	Production & construc. industries	Production industries	Manufacturing industries	Services industries
		All	Part-time					
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1986 Sept	1,020	866	367	1,886	595	460	409	1,261
Dec	1,006	868	375	1,874	586	451	404	1,259
1987 Mar	997	865	375	1,862	578	442	396	1,254
June	1,006	880	379	1,886	579	441	395	1,277
	(1,010)	(882)		(1,892)				
Sept	1,001	878	383	1,879	577	437	392	1,273
	(1,011)	(884)	(381)	(1,895)	(584)	(442)	(397)	(1,283)
Dec	996	881	389	1,877	572	432	388	1,278
	(1,012)	(891)	(385)	(1,903)	(582)	(440)	(395)	(1,294)
1988 Mar	989	879	387	1,868	570	429	386	1,271
	(1,010)	(893)	(381)	(1,903)	(584)	(439)	(396)	(1,292)
	[1,013]	[880]	[362]	[1,893]	[591]	[464]	[408]	[1,274]
June	996	892	389	1,888	568	427	385	1,292
	(1,020)	(908)	(383)	(1,928)	(584)	(439)	(396)	(1,316)
	[1,021]	[890]	[361]	[1911]	[592]	[466]	[408]	[1,290]
Sept	992	892	389	1,884	569	427	387	1,287
	(1,022)	(910)	(382)	(1,932)	(588)	(443)	(400)	(1,315)
	[1,027]	[909]	[368]	[1,936]	[600]	[475]	[417]	[1,307]
Dec	(1,020)	(923)	(396)	(1,942)	(589)	(443)	(402)	(1,327)
	[1,016]	[921]	[380]	[1,937]	[602]	[478]	[420]	[1,307]
1989 Mar	(1,015)	(914)	(387)	(1,929)	(587)	(440)	(401)	(1,314)
	[1,016]	[925]	[376]	[1,940]	[601]	[476]	[418]	[1,311]
Jun	[1,018]	[941]	[384]	[1,959]	[599]	[474]	[416]	[1,331]
Sept	[1,031]	[947]	[376]	[1,978]	[606]	[482]	[423]	[1,342]
Dec	[1,029]	[959]	[390]	[1,988]	[606]	[484]	[424]	[1,354]
1990 Mar	[1,024]	[955]	[382]	[1,979]	[603]	[481]	[420]	[1,348]

Source: Department of Employment Gazette.

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

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

(cont.)

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

SIC 1980	W/sale dist. hotels & catering 61-63 66-67	Retail distrib 64/65	T/sport & communi-cation 7	Banking, insurance & finance 8	Public admin & defence 91-92	Educ. health & oth. ser 93-99
1979	197	194	135	123	170	403
1983	188	183	119	140	171	416
1984 Mar	180	183	118	138	170	421
June	193	186	115	141	170	425
Sept	193	186	115	146	170	419
Dec	187	196	114	146	169	422
1985 Mar	188	184	115	147	169	427
June	195	185	115	146	170	432
Sept	198	188	115	151	172	428
Dec	191	193	113	150	171	433
1986 Mar	190	187	111	151	172	428
June	199	186	110	155	175	435
Sept	199	187	111	158	176	431
Dec	190	191	108	159	176	436
1987 Mar	189	183	106	161	176	439
June	198	185	108	165	177	444
Sept	202 (203)	182 (183)	108 (109)	164 (166)	179 (180)	439 (442)
Dec	194 (197)	191 (193)	106 (108)	166 (169)	179 (181)	442 (446)
1988 Mar	199 (202) [187]	184 (186) [181]	105 (107) [114]	165 (169) [161]	180 (183) [186]	439 (445)[445]
June	208 (212) [193]	185 (187) [180]	105 (108) [115]	169 (173) [165]	181 (185) [188]	444 (452)[449]
Sept	203 (207) [191]	185 (188) [184]	103 (106) [117]	174 (179) [169]	178 (184) [190]	443 (451)[456]
Dec	(205) [188]	(188) [188]	(106) [115]	(179) [169]	(175) [183]	(469) [463]
1989 Mar	(201) [189]	(188) [186]	(104) [115]	(183) [172]	(168) [184]	(469) [465]
June	[197]	[188]	[116]	[174]	[187]	[469]
Sept	[198]	[189]	[117]	[176]	[187]	[477]
Dec	[191]	[193]	[117]	[177]	[189]	[487]
1990 Mar	[187]	[187]	[117]	[179]	[191]	[486]

Source: Department of Employment Gazette

Table 3 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	20.0	-0.3	-0.1	17.0	0.5
Feb	19.9	-0.1	-0.0	17.2	0.5
Mar	19.8	0.1	-0.2	18.5	0.5
Apr	20.3	0.5	0.1	20.2	0.6
May	20.5	0.2	0.2	21.5	0.7
Jun	21.8	0.0	0.7	23.3	1.0
Jul	21.8	0.0	0.5	23.1	0.9
Aug	22.1	0.3	0.5	22.7	0.9
Sep	22.6	0.5	0.3	24.5	1.0
Oct	23.4	0.8	0.5	25.2	0.8
Nov	24.7	1.3	0.9	25.3	0.9
Dec	23.4	-1.3	0.3	21.9	1.1
1990 Jan	22.8	-0.6	-0.2	19.8	1.1
Feb	21.9	-0.9	-0.9	19.2	1.0
Mar	21.8	-0.1	-0.5	20.5	1.2
Apr	23.0	1.2	0.1	22.9	1.5
May	22.5	-0.5	0.2	23.6	1.3
Jun	22.3	-0.2	0.2	23.8	1.4
Jul	22.0	-0.3	-0.3	23.3	1.2

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

Source: Employment Department Press Notice

gains were registered by: education etc. (21,000); public admin. etc. (7,000); banking, insurance and finance (7,000) and energy and water supply (3,000). Construction registered the biggest employment loss (3,000) and 2,000 jobs were also lost in wholesale distribution, hotels and catering.

Vacancies: Stocks and Flows

Over the year to July 1990 unfilled vacancies at job centres in Scotland fluctuated between 21.8 (19.2) and 24.7 (25.3) thousands on a seasonally adjusted (unadjusted) basis (Table 3). Vacancies have been slightly higher as compared to the same period in 1989. 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 4). These were of a similar order of magnitude to the outstanding stock of vacancies in each month. For example, in July 1990 inflows of 23.7 thousand (over 1.6 thousand more than the previous year) were slightly exceeded by outflows of 23.9 thousand. Accordingly, during 1989 there were a total of over 266,000 vacancies at job centres, well over 90% of which resulted in placings. The short average duration of vacancies is a sign that employers on average do not find it difficult to fill posts because of a continuing slackness in the labour market (although employers may still find it difficult to recruit specific skills in particular locations).

Unemployment: Stocks and Flows

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

July 1990 saw a rise of some 0.2 thousand in total unemployment (of which 0.7 thousand was attributable to males whereas female unemployment

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

		In-flow		Out-flow		Thousands of which: Placings	
Date		Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
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	20.9	0.2	20.8	0.3	17.5	0.2
	Nov	21.0	0.1	21.6	0.4	18.4	0.4
	Dec	21.5	0.1	20.9	0.0	17.8	0.1
1989	Jan	20.4	-0.2	20.7	0.0	17.5	0.0
	Feb	21.9	0.3	22.3	0.2	19.1	0.2
	Mar	21.1	-0.1	21.3	0.1	18.0	0.1
	Apr	21.3	0.3	20.9	0.1	17.6	0.0
	May	21.4	-0.2	20.9	-0.5	17.7	-0.5
	Jun	21.9	0.3	20.1	-0.4	17.1	-0.3
	Jul	22.1	0.3	22.0	0.4	18.5	0.3
	Aug	23.1	0.6	22.8	0.6	19.2	0.5
	Sep	22.6	0.2	22.2	0.7	18.6	0.5
	Oct	24.1	0.7	23.4	0.5	19.8	0.4
	Nov	24.6	0.5	23.4	0.2	19.7	0.2
	Dec	22.1	-0.2	22.6	0.1	19.1	0.2
1990	Jan	19.8	-1.4	20.7	-0.9	17.5	-0.8
	Feb	22.4	-0.7	23.9	0.2	19.8	0.0
	Mar	22.1	0.0	22.2	-0.1	18.3	-0.3
	Apr	22.2	0.8	21.8	0.4	17.8	0.1
	May	22.3	0.0	21.9	-0.7	18.0	-0.5
	Jun	21.1	-0.3	21.1	-0.4	17.4	-0.3
	Jul	23.7	0.5	23.9	0.7	20.2	0.8

Source: Department of Employment

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

Date		Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate percentage of working population
1984		235.2	106.4	341.6			14.0
1985		243.6	109.3	353.0			14.2
1986		248.1	111.8	359.8			14.5
1986	Dec	242.6	104.8	347.4	1.2	1.1	14.0
1987	Dec	218.2	90.5	308.7	-2.6	-4.2	12.4
		(214.5)	(87.8)	(302.3)	(2.8)	(-4.1)	(12.2)
1988	Oct	(193.4)	(76.7)	(270.1)	(-2.2)	(-3.1)	(10.9)
	Nov	(191.0)	(75.5)	(266.5)	(-3.6)	(-3.1)	(10.7)
	Dec	(186.7)	(73.5)	(260.2)	(-6.3)	(-3.3)	(10.5)
1989	Jan	(184.0)	(72.6)	(256.6)	(-3.6)	(-3.2)	(10.3)
	Feb	(181.7)	(71.7)	(253.4)	(-3.2)	(-3.3)	(10.1)
	Mar	(180.2)	(70.3)	(250.5)	(-2.9)	(-3.6)	(10.0)
	Apr	(175.1)	(68.2)	(243.3)	(-7.2)	(-4.5)	(9.7)
	May	(172.8)	(66.7)	(239.5)	(-3.8)	(-4.5)	(9.7)
	Jun	(170.0)	(65.0)	(235.0)	(-4.5)	(-4.2)	(9.4)
	Jul	(168.9)	(63.9)	(232.8)	(-2.2)	(-4.0)	(9.4)
	Aug	(167.7)	(63.3)	(231.0)	(-1.8)	(-3.7)	(9.3)
	Sep	(163.0)	(61.8)	(224.8)	(-6.2)	(-4.3)	(9.1)
	Oct	(159.2)	(60.4)	(219.6)	(-5.2)	(-4.0)	(8.8)
	Nov	(155.8)	(59.0)	(214.8)	(-4.8)	(-4.1)	(8.6)
	Dec	(153.0)	(57.5)	(210.5)	(-4.3)	(-4.1)	(8.5)
1990	Jan	(150.6)	(56.5)	(207.1)	(-3.4)	(-4.3)	(8.3)
	Feb	(150.4)	(56.0)	(206.4)	(-0.7)	(-4.1)	(8.2)
	Mar	(149.5)	(55.3)	(204.8)	(-1.6)	(-3.3)	(8.2)
	Apr	(148.5)	(55.3)	(203.8)	(-1.0)	(-2.6)	(8.1)
	May	(147.2)	(54.4)	(201.6)	(-2.2)	(-2.2)	(8.0)
	Jun	(147.0)	(54.2)	(201.2)	(-0.4)	(-1.6)	(8.0)
	Jul(p)	(147.7)	(53.7)	(201.4)	(0.2)	(-1.0)	(8.0)

Source: Department of Employment

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

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

* The September figures are biased by the postal strike.

fell by 0.5 thousand). This marks the end of a continuous decline in unemployment since 1986. However, the average monthly fall in unemployment over the preceding 6 months was 1,000. It therefore remains to be seen whether this change simply reflects a "hiccup" in the downward trend or, as seems more likely, matters are likely to deteriorate over the foreseeable future given UK conditions and apparent prospects. Over the year to July 1990 total unemployment fell by about 31 thousand, from 232.8 thousand or 1.4 full percentage points. This represents a reduction in the level of unemployment of 13.5 per cent. Furthermore, 21,200 of the reduction occurred among males and around 10,200 among females.

Table 6 presents recent flows into and out of the unemployment stock. In July 1990 inflows were at 38.5 thousand, about 1.4 thousand more than in the same month of 1989. Outflows were, at 30.2 thousand, 3,300 less than in July 1989. Although gross outflows in January were rather low by recent standards, if they were maintained the unemployment stocks of 201,400 would turnover in just under 7 months.

Scottish Industrial Relations

Industrial relations in Scotland have been dominated by the dispute involving some offshore oil employees. In May the Offshore Industry Liaison Committee had announced plans for industrial action in support of safety issues and trade union recognition. The days of action were preceded by working to rule. The dispute was timed to coincide with the summer shut down programme. This was the largest ever planned, due to the requirement on operators to have emergency shut down valves fitted by end of the year.

Initially some 40 oil platforms were affected by the industrial action. Whilst the trade unions gave moral support both the Offshore operators association and the offshore contractors council took a hard line. Whilst support for the action waned the operators sought legal support to end the sit-ins and the contractors dismissed many staff who took part in the action.

The pattern of strikes seem set to resume and currently the six unions involved - AEU, EEPTU, GMB, MSF, RMT and TGWU are preparing to hold their own ballot. Unions now claim that some 1,500 have been discussed. Whilst there seems to be a stalemate the issues of safety and comparisons with other north sea operators remain. The health and safety executive is seriously undermanned. In some sections more than four years' work of overdue inspections exist.

Changes within education continue to threaten industrial action. The EIS has warned of industrial action if plans for the national testing in primary schools are implemented. In Strathclyde the first experiments for devolved management of schools may herald the rise of problems which have occurred in English schools.

Regional Review

INTRODUCTION

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

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

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

Time-Series Analysis

It was mentioned above that the data used in this section has not been adjusted to take account of seasonal factors. When comparing the unemployment situation in July 1990 with that which prevailed at the same time last year, this is not problematic. However, it is desirable to look at movements which have occurred within periods of less than one year. By looking at a time-series of unadjusted unemployment totals, a picture of the seasonal troughs and peaks in the labour market should emerge. It should then be possible to separate out seasonal swings in unemployment from underlying trends. Information on the unemployment situation in Scotland for the twelve months to July 1990 is presented in Table 1.

Over the year, the workforce-based unemployment has fallen from 9.3% to 8.0% but this decline has not been steady and continuous. The most substantial decreases occurred between August and **September and April and May with the rate falling** by 0.4%, but a drop of 0.3% was also noted between September and October. In contrast, a 0.2% increase occurred between December and January and between June and July of this year, a rise of 0.3% was recorded. In 1989, between the same two months, the increase was only 0.2% implying a possible worsening in unemployment situation. Seasonal influences would appear to result in falls in unemployment between April and May and August and October but increases between December and January and June and July.

Table 1 also indicates the proportional change in unemployment totals between each month. Not surprisingly, these changes broadly mirror the movements noted for unemployment rates. The greatest reduction in monthly totals again occurred between April and May with a proportional fall of 4.4%. A 4.3% fall was noted between August and September. At the other extreme, increases were recorded against July (1989), December and January with respective increases of 1.8%, 0.6% and 3.0%. The most substantial rise of 4% was experienced between June and July of this year. Whilst the trend in unemployment totals is clearly downwards, the percentage change in monthly totals of +4% in July is higher than the 1.8% for the same time period last year, again suggesting that the labour market in Scotland may be worsening or at least slowing down its rate of recovery.

Comparing the time-series for male and female unemployment, there is evidence that the female labour market is subject to more variation than that for males. In July of last year, the monthly change in unemployment totals was a rise of 1.8%. For that period however, male unemployment actually fell by 0.2% compared with the 7.4% increase in female totals. In the same period this year, female unemployment rose by 10.2% against 1.7% for the males, averaging out to a total proportional increase of 4%. This pattern is repeated to a lesser degree throughout almost all the time-series suggesting that females

Table 1 Unemployment Totals - Unadjusted Times Series, Scotland

	Unemployment Rate (%)	Total	% Change on Previous Month	Male	% Change on Previous Month	Female	% Change on Previous Month
1989 Jul	9.3	232,352	+1.8	165,646	-0.2	66,706	+7.4
Aug	9.2	229,914	-1.0	163,495	-1.3	66,419	-0.4
Sep	8.8	219,943	-4.3	158,683	-0.3	61,260	-7.8
Oct	8.5	214,125	-2.6	155,339	-2.1	58,786	-4.0
Nov	8.4	211,691	-1.1	153,759	-1.0	57,932	-1.5
Dec	8.5	212,861	+0.6	155,546	+1.2	57,315	-1.1
1990 Jan	8.7	219,176	+3.0	159,880	+2.8	59,296	+3.5
Feb	8.6	215,701	-1.6	157,314	-1.6	58,387	-1.5
Mar	8.4	210,102	-2.6	153,811	-2.2	56,291	-3.6
Apr	8.2	205,905	-2.0	150,977	-1.8	54,927	-2.4
May	7.8	196,542	-4.4	145,234	-3.8	51,308	-6.6
Jun	7.7	193,767	-1.4	142,657	-1.8	51,110	-0.4
Jul	8.0	201,439	+4.0	145,101	+1.7	56,338	+10.2

Source: Department of Employment

participate in seasonal employment to a greater extent than their male counterparts.

Total Unemployment

Table 2 shows for each local authority region and island and for Scotland as a whole, the narrow and wide unemployment rate, the numbers unemployed in July 1989 and 1990 and the change which has occurred over the twelve months. Quarterly and monthly changes are also indicated but the utilisation of unadjusted data means that careful interpretation of these short-term shifts is required. While they may be indicative of developing trends, they are more useful for the purposes of drawing inter-authority comparisons.

In the year to July 1990, total Scottish unemployment fell by 30,913, a drop of 13.3%, to stand at 201,439. This represents 8.0% of the workforce or 9.2% using the narrow definition. As already noted in the time-series analysis, this is an improvement on the position last year. Between April and July 1990, there was a 2.2% decrease in the numbers out of work, a fall of 4,465. However, this compares poorly with the 6.1% quarterly decrease reported in the last issue of the Commentary. Furthermore, in contrast to three months ago, there was a rise in monthly totals of 7,672, some 4.0% which effected a 0.3% increase in the unemployment rate. Whilst it has already been shown that there will be some rise in unemployment between June and July due to seasonal influences, the scale of this increase seems too substantial to attribute completely to seasonality. This is confirmed by the modest increase in the seasonal adjusted totals (+200) between the two months.

As can be seen from Table 2, there were annual declines in the unemployment totals in all local authority areas. The most substantial decrease proportionally, was experienced in Grampian with Orkney close behind with respective falls of 26.0% and 24.2%. Significant decreases were also noted for Shetland (-16.8%) and Fife (-15.8%). In absolute terms, Strathclyde say the biggest fall, a reduction of some 16,560. This accounted for 53.6% of the total Scottish decline but in percentage terms it was only a 12.7% fall in the numbers out of work in Strathclyde. Significantly below-average decreases were noted in Dumfries and Galloway (8.3%), the Western Isles (4.9%) and

Table 2: Unemployment by Region

	% rate Jul 90 Narrow	% rate Jul 90 Wide	Total Jul 90	Total Jul 89	Total Annual Change	% Change in Annual Totals	Total Apr 90	Total Quarterly Change	% Change in Quarterly Totals	Total Jun 90	Total Monthly Change	% Change in Monthly Totals
Borders	4.8	3.9	1,961	2,211	-250	-11.3	2,145	-184	-8.6	1,905	+56	+2.9
Central	10.3	9.0	10,745	11,273	-528	-4.7	10,700	+45	+0.4	10,333	+412	+4.0
Dumfries & Galloway	7.5	6.0	4,289	4,675	-386	-8.3	4,448	-159	-3.6	4,165	+124	+3.0
Fife	9.7	8.4	12,286	14,595	-2,309	-15.8	12,697	-411	-3.2	11,974	+312	+2.6
Grampian	3.9	3.4	9,236	12,473	-3,237	-26.0	10,091	-855	-8.5	8,952	+284	+3.2
Highland	8.1	6.7	6,731	7,813	-1,082	-13.8	7,637	-906	-11.9	6,596	+135	+2.0
Lothian	7.0	6.3	25,680	29,823	-4,143	-13.9	25,742	-62	-0.2	24,306	+1,374	+5.7
Strathclyde	11.7	10.3	114,159	130,719	-16,560	-12.7	115,680	-1,521	-1.3	109,690	+4,469	+4.1
Tayside	8.4	7.2	14,238	16,383	-2,145	-13.1	14,525	-287	-2.0	13,798	+440	+3.2
Orkney Is.	5.9	4.2	407	537	-130	-24.2	459	-52	-11.3	386	+21	+5.4
Shetland Is.	3.5	2.9	366	440	-74	-16.8	463	-97	-21.0	389	-23	-5.9
Western Is.	12.6	9.6	1,341	1,410	-69	-4.9	1,317	+24	+1.8	1,273	+68	+5.3
Scotland	9.2	8.0	201,439	232,352	-30,913	-13.3	205,904	-4,465	-2.2	193,767	+7,672	+4.0

Source: Department of Employment

Central (4.7%). Changes in sub-Scottish unemployment totals reveals considerable disparities in the fortunes of local labour markets and analysis of unemployment rates confirms this observation.

The variation is greatest amongst the island authorities where the rate in the Western Isles (12.6%) is some 3.6 times that in Shetland (3.5) and more than twice that in Orkney. Similar disparity is evident using the workforce based rates. On the mainland, Strathclyde continues to have the highest unemployment rate with 10.3% of its workforce unable to find employment. The only other local authority areas with rates in excess of the 8.0% Scottish average are Central and Fife where the rates are 9% and 8.4% respectively. The same broad pattern is apparent in analysis of the narrow rates with the Borders and Grampian having notably low rates. The differential between the wide and the narrow rate is greatest in the Western Isles where 3% separates them. In Orkney the difference is 1.7% and in Dumfries and Galloway, 1.5%. The primary difference between the narrow and the wide unemployment rates is the number in each area who are self-employed, in HM Forces or on government-related training programmes. The authorities with large differentials are all rural and thus the bigger gaps are likely to reflect the concentration of agricultural and fishing activity characteristic to rural Scotland and the higher levels of self-employment associated with these industries. In the Western Isles however, it is also likely to reflect the generally higher levels of unemployment and hence increased participation in government-related training programmes, only included in the wider workforce count. The converse argument explains the small difference in the low unemployment areas of Grampian (0.5%), the Shetland Isles (0.6%) and to a lesser degree, the Borders (0.9%).

With the exception of Central and Western Isles, in the three months to July 1990, there were falls in all local authority areas but considerable disparities in the extent of these movement is evident. The greatest proportional reduction on the mainland was experienced in Highland were there was a quarterly change of -11.9% which is only marginally less than the change which occurred in the year to July 1990 indicating the seasonal nature of labour market movements in this region. The Highland decline however, was surpassed in Shetland where 21% fewer people were out of work in July compared with April. The Borders (-8.6%) and the Orkney Islands (-11.3) also witnessed above average quarterly declines further reflecting the more seasonal nature of employment patterns in rural areas. Lothian, Strathclyde and Tayside experienced only modest quarterly decreases recording respectively -0.2%, -1.3% and -2.0%. In Central, the increase in unemployment is only slight - 45 people or 0.4% of the April total. Although in the Western Isles, only 24 more people are unemployed over the quarter, this represented 1.8% of April's figure. This information suggests that the unemployment situation in these two areas is less healthy than elsewhere in Scotland.

Excluding Shetland, all the regions and islands saw rises in unemployment between June and July. The variation in these changes was less dramatic than characterised the quarterly and annual movements. Lothian experienced the largest percentage increase with a 5.7% rise but Orkney and the Western Isles were only marginally behind at 5.4% and 5.3%. Highland had the lowest increase of 2.0% with Fife the next closest on +2.6%. Shetland was the only authority recording a decline and at 5.9% this is proportionally not insubstantial even though only 23 workers were involved. This island however, would appear to be going against the seasonal trend of increasing unemployment.

The analysis of sub-Scottish data suggests that the long-term unemployment trend is still downward but that the pace of decline has slowed somewhat.

Male Unemployment

Information on the unemployment situation in the male labour market is presented in Table 3. As can be seen from the table, in the twelve months to July 1990, male unemployment in Scotland fell by 20,545 to stand at 145,101. This 12.4% drop has caused a further reduction in the male unemployment rate. The narrow measure stands at 12.3% compared with 17.7% reported in the last Commentary. Using the workforce-based calculation, the rate is 10.1% compared with April's 10.5%. Decreasing male unemployment is also evident for the quarterly change. Between April and July, male unemployment fell by 5,876 (3.9%). However, as for total unemployment, the number of males out of work between June and July actually rose. The monthly rise was 2,444 or 1.7% and as already mentioned this is to some extent

Table 3: Male Unemployment by Region

	% rate Jul 90 Narrow	% rate Jul 90 Wide	Total Jul 90	Total Jul 89	Total Annual Change	% Change in Annual Totals	Total Apr 90	Total Quarterly Change	% Change in Quarterly Totals	Total Jun 90	Total Monthly Change	% Change in Monthly Totals
Borders	6.2	4.7	1,351	1,508	-157	-10.4	1,482	-131	-8.8	1,333	+18	+1.4
Central	12.9	10.7	7,214	7,671	-457	-6.0	7,456	-242	-3.2	7,110	+104	+1.5
Dumfries & Galloway	9.3	6.8	2,852	3,003	-151	-5.0	2,933	-81	-2.8	2,818	+34	+1.2
Fife	12.7	10.4	8,610	10,093	-1,483	-14.7	9,041	-431	-4.8	8,464	+146	+1.7
Grampian	4.5	3.7	6,018	8,168	-2,150	-26.3	6,846	-828	-12.1	5,932	+86	+1.4
Highland	10.8	8.3	4,833	5,429	-596	-11.0	5,378	-545	-10.1	4,733	+100	+2.1
Lothian	9.9	8.4	18,826	21,464	-2,638	-12.3	19,113	-287	-1.5	18,163	+663	+3.7
Strathclyde	15.8	13.2	84,099	95,431	-11,332	-11.9	86,983	-2,884	-3.3	82,909	+1,190	+1.4
Tayside	10.8	8.8	9,799	11,217	-1,418	-12.6	10,121	-322	-3.2	9,703	+96	+1.0
Orkney Is.	7.6	4.7	272	353	-81	-22.9	317	-45	-14.2	263	+9	+3.4
Shetland Is.	4.2	3.1	242	254	-12	-4.7	311	-69	-22.2	261	-19	-7.3
Western Is.	17.1	11.6	985	1,055	-70	-6.6	996	-11	-1.1	968	+17	+1.8
Scotland	12.3	10.1	145,101	165,646	-20,545	-12.4	150,977	-5,876	-3.9	142,657	+2,444	+1.7

Source: Department of Employment

attributable to seasonal factors.

All authorities experienced a decline in male unemployment with the percentage change greatest in Grampian with 26.3% fewer males unemployed in July this year compared with July last. Orkney also fared well with a 22.9% drop but in number terms this represented only 81 fewer unemployed males. Above average decreases were noted in Fife (14.7%) and Tayside (12.6%). On the mainland, Dumfries and Galloway, and Central fared worst with respective decreases of 5.0% and 6.0%. However, Shetland and the Western Isles also fared poorly with falls of only 4.7% and 6.6%.

Despite an 11.9% drop in male unemployment, Strathclyde remains the local authority area with the highest unemployment rate with 13.2% of the male workforce unable to secure employment. Comparatively high (wide) unemployment rates were also evident in the Western Isles, Central and Fife where the rates are 11.6%, 10.7% and 10.4% respectively. Contrastingly, notably low rates were recorded for Shetland (3.1%), Grampian (3.7%), the Borders (4.7%) and the Orkney Islands (4.7%). A similar pattern exists for the narrow-based calculations of unemployment rate except that the Western Isles has replaced Strathclyde as having the highest unemployment rate.

During the quarter to July 1990, decreases in male unemployment were witnessed everywhere. The most substantial fall occurred in Shetland where there was a drop of 22.2%. Notable reductions were also evident in Orkney (-14.2%), Grampian (-12.1%) and Highland (-10.1%). Minimal reductions were experienced in the Western Isles, Lothian and Dumfries and Galloway with respective falls of 1.1%, 1.5% and 2.8%.

At the time of the last Commentary, Shetland was the only authority experiencing an increase in its monthly male unemployment totals. This quarter, the reverse is true with Shetland being the only area recording a decrease which at 7.3% is not insignificant. Lothian witnessed the biggest proportional increase (+3.7%) with Orkney only a little behind (+3.4%). Amongst the other authorities, the increases were of a similar magnitude ranging from 2.1% in Highland to 1.0% in Tayside.

Female Unemployment

Table 4 contains information on the female unemployment position. Over the past year, female unemployment in Scotland fell by 10,368 to stand at 56,338 or 5.2% of the total female workforce (or 5.6% of the narrowly defined labour force) which continues to be well below the total Scottish unemployment rate (8.0%). However, the quarterly and monthly changes in the female unemployment situation fared poorly against the Scottish average. In table 2, it was indicated that there was a modest quarterly decrease overall (-2.2%) in the total numbers unemployed in Scotland. Against this background, in the three months to July 1990, female unemployment actually rose by 2.6% or 1,411. Similarly, there was a 4.0% total monthly increase but a female rise of 10.2%. This is further evidence of the more seasonal nature of the female labour market.

In the twelve months to July 1990, excluding the Western Isles, there were decreases in the number of females out of work in all areas. Shetland saw the biggest fall with 33.3% fewer of its female workforce unemployed in July of this year compared with last. Decreases in excess of 20% were also noted in Orkney (26.6%), Grampian (25.2%) and Highland (20.4%). At the other end of the spectrum, Central fared poorly with an annual change of only -2.0%. Although the Western Isles did not experience a fall in female unemployment, the total only rose by one female or 0.3%.

Analysis of the changes in female unemployment total over the last three months reveals a different pattern from the changes in the male labour market situation. If we recall, for males, there were declines throughout Scotland. For females, half of the authorities saw female unemployment rise whilst for the rest, declines were experienced. On mainland Scotland, Highland performed best with 16% fewer females unemployed in July compared with April. The Borders (-8.0%) and Dumfries and Galloway (-5.1%) also fared well. In contrast, Central saw a quarterly rise of 8.8% followed by Strathclyde (+4.7%) and Lothian (+3.4%). The greatest disparity is evident amongst the islands with Shetland experiencing an 18.4% decrease against a 10.9% increase in the Western Isles.

Great variation is also evident in movements in female unemployment between June and July. Shetland was the only area recording a monthly decline of some 3.1% which contrasts sharply with the 16.7% rise noted for the Western Isles. On the mainland, Strathclyde fared worst with a 12.2%

Table 4: **Female Unemployment by Region**

	% rate Jul 90 Narrow	% rate Jul 90 Wide	Total Jul 90	Total Jul 89	Total Annual Change	% Change in Annual Totals	Total Apr 90	Total Quarterly Change	% Change in Quarterly Totals	Total Jun 90	Total Monthly Change	% Change in Monthly Totals
Borders	3.2	3.0	610	703	-93	-13.2	663	-53	-8.0	572	+38	+6.6
Central	7.3	6.7	3,531	3,602	-71	-2.0	3,244	+287	+8.8	3,223	+308	+9.6
Dumfries & Galloway	5.5	4.9	1,437	1,672	-235	-14.1	1,515	-78	-5.1	1,347	+90	+6.7
Fife	6.2	5.8	3,676	4,502	-826	-18.3	3,656	+20	+0.5	3,510	+166	+4.7
Grampian	3.1	2.9	3,218	4,305	-1,087	-25.2	3,245	-27	-0.8	3,020	+198	+6.6
Highland	5.0	4.5	1,898	2,384	-486	-20.4	2,259	-361	-16.0	1,863	+35	+1.9
Lothian	3.9	3.7	6,854	8,359	-1,505	-18.0	6,629	+225	+3.4	6,143	+711	+11.6
Strathclyde	6.8	6.4	30,060	35,288	-5,228	-14.8	28,697	+1,363	+4.7	26,781	+3,279	+12.2
Tayside	5.6	5.2	4,439	5,166	-727	-14.1	4,404	+35	+0.8	4,095	+344	+8.4
Orkney Is.	4.0	3.4	135	184	-49	-26.6	142	-7	-4.9	123	+12	+9.8
Shetland Is.	2.7	2.5	124	186	-62	-33.3	152	-28	-18.4	128	-4	-3.1
Western Is.	7.3	6.6	356	355	+1	+0.3	321	+35	+10.9	305	+51	+16.7
Scotland	5.6	5.2	56,338	66,706	-10,368	-15.5	54,927	+1,411	+2.6	51,110	+5,228	+10.2

Source: Department of Employment

Table 5: Registered Vacancies by Region

	July 1990 Exc. C.O.s*	July 1990 Total	April 1990 Exc. C.0s*	April 1990 Total	Quarterly Change % Exc. C.0s*	Quarterly Change % Total	Total July 89	Annual Change %
Borders	577	602	588	611	-1.9	-1.5	685	-12.1
Central	1090	1097	1262	1278	-13.6	-14.2	1273	-13.8
Dumfries & Galloway	775	790	592	601	+30.9	+31.4	640	+23.4
Fife	1138	1165	1075	1098	+5.9	+6.1	930	+25.3
Grampian	3626	3852	3748	2910	-3.3	-1.5	3209	+20.0
Highland	1394	1434	1627	1643	-14.3	-12.7	1750	-18.1
Lothian	3299	3804	3015	3487	+9.4	+9.1	3425	+11.1
Strathclyde	9715	9956	9712	10402	-	-4.3	10318	-3.5
Tayside	1328	1382	1104	1144	+20.3	+20.8	1411	-2.1
Orkney Is.	100	114	79	98	+26.6	+16.3	126	-9.5
Shetland Is.	99	120	62	79	+59.7	+51.9	124	-3.2
Western Is.	110	110	130	130	-15.4	-15.4	87	+26.4
Scotland	23251	24426	22994	24481	+1.1	-0.2	23976	+1.9

* Excluding vacancies notified to Careers Offices

Source: Department of Employment

rise in female unemployment but this was closely followed by Lothian (11.6%) and Central (+9.6%). Highland had the smallest proportional increase at 1.9% and this was the only authority in which the movement in the female unemployment situation did not surpass the male shift.

The differential between the wide and narrow unemployment rate is much less for female unemployment than was the case for males reflecting the higher levels of self-employment and HM Forces amongst the latter group. Using the workforce-based rate, unemployment is lowest in the Shetland Islands where only 2.5% of the female workforce is out of work. Grampian and the Borders are only a little behind with respective rates of 2.9% and 3.0%. Central has the highest female unemployment at 6.7% but Strathclyde is only a little way behind at 6.4%.

Comparing male and female unemployment levels, there would appear to be less of a problem amongst the latter group. However, the analysis is confined to recorded or notified unemployment. It is quite likely that there are many females who are not counted as unemployed but who would enter the labour market should a job be available. Thus the figures are skewed to an unknown degree preventing strict comparison between the two groups.

Vacancy Levels

Table 5 indicates registered vacancies by local authority area. The data relates to unfilled vacancies notified to Job Centres and Careers Offices. The former mainly deal with openings for the over 18s whilst Careers Offices deal with opportunities for young persons under 18 years of age. Since the latter group are now excluded from registering as unemployed following the extension of a guarantee of a place on a training programme, we continue to calculate a separate vacancy count which excludes vacancies notified to Careers

Offices since in our view this allows for the generation of a more meaningful unemployment/vacancy ratio.

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

In July 1990 in Scotland, there were 24,426 notified vacancies of which 1,175 were openings for young persons under 18. This was a 1.9% increase on the 1989 vacancy level but in the quarter to July, there was actually a decrease in the number of total notified vacancies. This is attributable to a decrease in the number notified to Careers Offices because when this component is excluded a 1.1% increase is evident.

Considerable variation in changes in vacancy levels between July 1990 and 1989 is evident amongst Scottish local authorities. Those experiencing increases all saw substantial rises. In the Western Isles, there was a 26.4% increase, closely followed by Fife (25.3%), Dumfries and Galloway (23.4%) and Grampian (20.0%). The authorities witnessing declining vacancy levels all saw more modest changes. Central had the biggest decline with 13.8% fewer vacancies this July compared with last and the corresponding fall in the Borders was 12.1%. Strathclyde, Shetland and Tayside experienced minimal change with decreases of 3.5%, 3.2% and 2.1%.

For the total vacancy count, in the quarter following April 1990, disparity is again evident. Shetland saw a staggering 51.9% increase and when vacancies notified to Careers Offices are excluded, the increase is 59.7%. Dumfries and Galloway also saw a substantial rise of 31.4% (or 30.9% when Careers Office notifications are excluded). Half of the authorities saw falls in their quarterly vacancy counts ranging from 15.4% in the Western Isles to 1.5% in Grampian and the Borders.

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

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

	July 1990 Exc. C.O.s*	July 1990 Total	April 1990 Exc. C.O.s*	April 1990 Total	July 1989 Total
Borders	3.40	3.26	3.65	3.51	3.2
Central	9.86	9.79	8.48	8.37	11.3
Dumfries & Galloway	5.53	5.43	7.51	7.40	7.3
Fife	10.80	10.55	11.81	11.56	15.7
Grampian	2.55	2.40	2.69	2.58	3.9
Highland	4.83	4.69	4.69	4.65	4.5
Lothian	7.78	6.75	8.54	7.38	8.7
Strathclyde	11.75	11.47	11.91	11.12	12.7
Tayside	10.72	10.30	13.16	12.70	11.6
Orkney Is.	4.07	3.57	5.81	4.68	4.3
Shetland Is.	3.70	3.05	7.47	5.86	3.5
Western Is.	12.19	12.19	10.13	10.13	16.2
Scotland	8.66	8.25	8.95	8.41	9.7

* Vacancies notified to Careers Offices

Source: Department of Employment

In July 1990, the Scottish U/V ratio excluding vacancies notified to Careers Offices was 8.66 and including the latter component 8.25. This is an improvement on the position both last year and last quarter. Within Scotland, the ratio is lowest in Grampian where there are 2.55 unemployed people per vacancy notified to Job Centres. The ratio is also notably low in the Borders (3.40) and the Shetland Islands (3.70) and indeed levels as low as this may be indicative of possible recruitment difficulties. The U/V level is highest in the Western Isles (12.19) but Strathclyde (11.75), Fife (10.80) and Tayside (10.72) also fair poorly. With the exception of the Borders, Highland and the Shetland Islands, all areas saw their U/V ratios improve between July 1989 and 1990. However, little coherent pattern is movements in ratios emerges reflecting both the non-systematic changes in unemployment and fluctuations in vacancy levels.

Intra-Regional Variations

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

Table 7 indicates the number of TTWAs contained in each region and the number of these with unemployment rates in excess of the Scottish and regional averages. If the majority of a region's TTWAs have unemployment rates above the Scottish average then this is an indication of a general high unemployment area such as Strathclyde, Central or Fife. The converse also holds true and the Borders and Grampian are useful for illustrating such an instance. In the Borders for example, none of the TTWAs have unemployment levels in excess of the average for Scotland.

Comparing the unemployment rates in TTWAs with the regional averages is useful in identifying sub-regional areas with significantly above or below average unemployment. If the majority of a region's TTWAs have rates in excess of the regional average then this indicates the presence of a few areas, possibly even one, with below average unemployment. Grampian again serves well to illustrate the case with all but one of its TTWAs having rates in excess of the 3.4% regional average. It is the large, low-rate TTWA of Aberdeen which is pulling down the Grampian figure.

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

	No. of TTWAs	No. above Scottish Average+	No. above Regional Average+
Borders	5	0 (0)	3 (3)
Central	3	2 (2)	2 (1)
Dumfries & Galloway	7	3 (3)	3 (4)
Fife	3	2 (2)	1 (1)
Grampian	9	1 (1)	7 (8)
Highland	8	3 (5)	4 (5)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	7 (9)	6 (6)
Tayside	7	2 (2)	2 (2)
Scotland	57	21 (25)	29 (31)

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

Source: Department of Employment

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

Dumfries and Galloway continues to be the region exhibiting the biggest range in rates with the unemployment rate in Cumnock and Sanquhar some 10.7% higher than in Lockerbie. Strathclyde also has a wide range with 9.2% separating Greenock and Oban's unemployment rates. The differential is lowest in the Borders at only 2.4%.

The ratio of high to low unemployment rates is greatest in Strathclyde where unemployment in Greenock is 3.49 times greater than the rate in Oban. The ratio is also in excess of three in Dumfries and Galloway (3.38) and Grampian (3.25).

The Borders displays the lowest ratio where it is 1.73 but it is also low in Central (1.76) and Lothian (1.89).

As the data shows, there is considerable disparity in unemployment situation not only between authorities but also within them.

Table 8 TTWAs with highest and lowest unemployment rates, July 1990

		Unemployment Rates+		High - Low+		High/Low+	
Borders	H Peebles	5.7	(6.3)	2.4	(2.8)	1.73	(1.80)
	L Galashiels/Kelso	3.3	(3.5)				
Central	H Alloa	11.6	(11.7)	5.0	(4.6)	1.76	(1.65)
	L Stirling	6.6	(7.1)				
Dumfries & G/way	H Cumnock &Sanquhar	15.2	(16.6)	10.7	(11.2)	3.38	(3.07)
	L Lockerbie	4.5	(5.4)				
Fife	H Kirkcaldy	9.4	(9.9)	4.7	(4.6)	2.00	(1.87)
	L North East Fife	4.7	(5.3)				
Grampian	H Forres	9.1	(11.1)	6.3	(8.0)	3.25	(3.58)
	L Aberdeen	2.8	(3.1)				
Highland	H Invergordon/Dingwall	10.7	(11.7)	5.6	(5.4)	2.10	(1.86)
	L Badenoch	5.1	(6.3)				
Lothian	H Bathgate	8.9	(9.4)	4.2	(4.4)	1.89	(1.88)
	L Haddington	4.7	(5.0)				
Strathclyde	H Greenock	12.9	(13.5)	9.2	(7.3)	3.49	(2.18)
	L Oban	3.7	(6.2)				
Tayside	H Arbroath	9.1	(8.9)	4.7	(4.1)	2.07	(1.85)
	L Blairgowrie & Pitlochry/ Brechin & Montrose	4.4	(4.8)				

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

Source: Department of Employment.