

The Scottish Economy

In our previous (October) Commentary it was suggested that the relatively better performance of the Scottish economy compared to the UK, a result of the stimulus provided by oil-related activity, might not be sustained. Despite a reportedly more pessimistic outlook by Scottish industry, however, evidence presently available for the last quarter of 1975 shows no obvious deterioration in terms of trends in relative unemployment, unlike previous recessions in which Scotland fared relatively worse than the rest of the UK. While it is too early in the present recession to be optimistic, it is now conceivable to argue that the effects of oil on the Scottish economy, allied with the longer-term structural changes which have occurred over the last decade, have effected a more lasting improvement in the underlying resilience of the economy.

Nevertheless, this cautious note of optimism must be seen against a background of a continuing decline in output and employment with little immediate prospect of improvement. There is no doubt that unemployment will continue to rise through most, if not all of 1976. The real task is to predict the turning point, and this depends on the timing and rate of the expected recovery in output. Trends in employment follow trends in output with a lag, often of up to one year, so that expectations of a decline in unemployment from the beginning of 1977 imply a recovery in output during the first quarter, or at least by the beginning of the second quarter of this year.

Summary of current business trends

Although, as anticipated, the general picture during the last quarter has been declining production and investment, and shortened order books, the most recent CBI Industrial Trends survey, and our own enquiries, show a greater variation in expectations and business confidence than was evident at the time of the last Commentary.

In many intermediate and producers' goods industries, as well as in vehicles, the prospects remain gloomy. In some sectors, such as chemicals,

paper and printing, and parts of metal manufacturing, which have been severely affected by the current recession, continued pessimism also reflects the slower rate of recovery experienced by these industries during upswings of the business cycle. In addition to their short-term problems, however, the steel, vehicles and shipbuilding sectors give serious cause for concern in the longer term. The problems of Chrysler are well known, and it must be doubtful whether the remedial measures recently announced can do more than postpone eventual closure. All studies indicate long-term over-capacity in the UK car industry, and Chrysler is the weakest of the four UK manufacturers.

Similar problems of high costs, low labour productivity and falling world demand in the face of substantial world over-capacity, beset the shipbuilding industry. Although work-in-hand - a consequence of the 1973 boom - is maintaining employment, order books are virtually empty and lay-offs must be expected from the second quarter of this year, with little foreseeable prospect of improvement.

Depressed prospects for vehicles and shipbuilding add to the equally well-publicised problems of the steel industry, whose operations achieved record losses last year. Despite plans for expansion at Bellshill and Coatbridge, significant redundancies are inevitable this year, and apparent lack of competitiveness discourages prospects of early recovery.

In consumer goods and related industries, however, despite continued difficulties in the domestic market, signs of greater optimism are evident with regard to export markets during the current year. After a difficult year, whisky exports are expected to pick up through 1976, and firms in the textile industry anticipate a recovery in export demand, particularly in the United States. Nevertheless, employment trends in these sectors are unlikely to show any improvement.

As noted in the last Commentary, the electrical and instrument engineering industry has shown remarkable buoyancy during the current recession, and short-term prospects continue to be encouraging. New

and expansion investment is taking place, and this is the only manufacturing industry in which a predictable growth in employment can be hoped for this year. Prospects are less certain in mechanical engineering, with more marked differences of opinion amongst firms, but oil-related work and new export orders give grounds for belief that this sector is about to turn the corner. Again, however, while the trough in the new order cycle may have been reached, this is not inconsistent with further lay-offs in the short term.

In terms of their impact on short-term trends in employment in Scotland, the most important sectors are oil development, and construction. In the former, both oil production and the level of exploration activity are unlikely to be as high as earlier forecast for 1976. As the current concern over Marathon's future demonstrates, the short-term prospects for new rig and platform construction work are highly uncertain at this stage, and firm estimates of activity and employment levels are difficult to predict at this time.

In the construction and building materials sectors, events seem to confirm our previous forecast of a continued decline in activity and employment. Although private housebuilding seems to have held up quite well - and may continue to do so given the high level of building societies' loan funds and lower interest rates - cutbacks in public authorities' outlays have had their effect and a continuing decline is expected in the current quarter. We repeat our view that the revival in construction activity will be slower than anticipated.

In the primary sectors, while the outlook for output and employment in the coal industry is reasonably good, production in agriculture and fishing is expected to decline, with a further fall in employment and significantly higher prices for the consumer.

In general, while with few exceptions current trends in output reflect the recession prevalent throughout the UK, business expectations reveal a pattern consistent with the impact of the business cycle on different sectors of the economy, and the influence of demand factors on a highly open economy.

In summary,

- the earliest recovery, in the second half of this year, is expected in the export-based consumer industries, in particular textiles and drink.
- while a subsequent recovery can be anticipated in other sectors, the vehicles, shipbuilding and steel industries are afflicted by severe structural as well as cyclical factors, and a return to previous levels of production and employment is highly unlikely.
- the short-term prospects for recovery through the regionally-generated effects of the oil and construction sectors are, at the present time, uncertain.

Current trends in output and expectations indicate that no real recovery in output can be expected before the second half of this year, and that the upturn in activity which will occur will be selective and fairly slow. This in turn confirms the view that unemployment will continue to rise throughout the year, that a levelling-off is unlikely before the end of the year, and that a subsequent decline in unemployment will not be rapid. Higher than normal unemployment levels are likely to prevail for a considerable period of time.

Regional changes in unemployment

We remarked in our previous Commentary on the consistency in regional patterns of unemployment during the third quarter of 1975. Table 1 records percentage changes in unemployment rates in each region during the final quarter of 1975, and shows that, at least in terms of changes in unemployment this consistency appears to have broken down between September and December. The changes in the level of unemployment between September and December range from an increase of 30% in Shetland to a fall of 4% in the Lothians. However, these raw figures may somewhat exaggerate the underlying range of variation. Undoubtedly the

large increases in the Highland region and the Island authorities reflect not only the deepening recession, but also the usual seasonal pattern in unemployment. We have made a rather rough attempt to deseasonalize the unemployment levels for the different regions using the ratio to moving average trend method. The resultant changes are shown in column 4 of Table 1.

Amongst the larger regions the most significant change has been the large increase in the Tayside region, the result of redundancies in engineering and textiles. Strathclyde and Lothian regions show little significant change over the quarter. However one must expect that the upward trend in unemployment will reassert itself over the next quarter especially in Strathclyde where a large number of redundancies are imminent.

Scotland vis-a-vis Great Britain

Though the rate of unemployment in Scotland in December 1975 at 6.1% was still above the rate of 5.1% in Great Britain (see Figure 1), Scotland's position vis-a-vis the rest of Great Britain continued to show an underlying improvement over the last quarter. In December there were 131,000 unemployed in Scotland representing 11.3% of the total unemployed in Great Britain. Although this is actually a 0.5% increase on the September figure of 10.8%, the raw figures are not adjusted for the strong seasonal rise in unemployment at this time of year. Using the Department of Employment's seasonally adjusted figures which exclude school leavers and adult students the proportion has fallen between September and December from 11.5% to 11.4% (see Figure 2).

It is perhaps worth pointing out, as we did in the last Commentary, that had not this relative improvement occurred there would have been around 200,000 out of work in Scotland in December.

A further symptom of Scotland's improving relative position is the high level of vacancies which are being notified compared with the rest of

Great Britain. In December 15,600 vacancies were notified to employment offices in Scotland, 12.9% of the Great Britain total of 120,700. This is considerably larger than the 9.3% one might expect from the employment relative. If one looks at the unemployment/vacancies ratio the improvement is even more remarkable. The unemployment/vacancies ratio is often taken as a crude measure of the level of aggregate demand in an economy, - the ratio being high when the level of demand is low, and low when the level of demand is high. Table 2 (a) shows how the ratio has moved both in Scotland and in Great Britain as a whole between 1971 and 1975, while Figure 3 plots the ratio, seasonally adjusted, for each month between January 1968 and December 1975. Whereas the Scottish ratio fell from 17.1 to 8.4 between 1971 and 1975, the Great Britain ratio rose from 6.3 to 9.6. Table 2 (b) gives the unemployment/vacancies ratio for each region of Great Britain in December 1975 and shows that only in the South-East is the ratio lower than in Scotland. The West Midlands which until recently was thought to be one of the more buoyant areas of the economy, has an unemployment/vacancies ratio over twice as large as Scotland's.

Male/Female Comparison

Although, as noted in the last Commentary, the unemployed contain a much larger proportion of females than in the past, the relative position of females amongst the total unemployed in Scotland has not changed markedly (see Figure 4). In December just over 32,400 females were unemployed - representing 24.8% of total unemployment. Using the Department of Employment's estimates for males and females in employment in June 1975 this would imply an unemployment rate for females of 3.6% and for males of 7.4%.

School Leavers

In December there were 2,900 school leavers unemployed in Scotland. Most of these will have been unemployed since July. Perhaps a more revealing estimate of the number of young people seeking work can be

gained by considering the number of unemployed teenagers. Since October the Department of Employment have been collecting statistics on the number of unemployed teenagers, and in November there were 19,700 unemployed teenagers in Scotland, 15.4% of the total unemployed.

Changes in Employment June 1974 - June 1975

The Department of Employment have recently published* new quarterly estimates of employees in employment by industrial order for the regions of Great Britain. The figures for Scotland for the period June 1974 to June 1975 are given in Table 4.

Several important points emerge from an examination of this table. Firstly, the total size of the workforce in Scotland contracted over the period. However the contraction is not so sharp as the employment figures alone suggest. Although the number of employees in employment declined by 1.5% between June 1974 and July 1975, if one defines the workforce as those with an active interest in labour market participation, i.e. the employed plus the unemployed, the reduction is only 0.3%. The disparity between the figures is due to the fact that although the number of employees in employment declined by 31,000, the number of unemployed increased by over 23,000. Nevertheless the loss of 31,000 jobs, not all of which may be revived when the economic climate improves, must be an unwelcome development.

Most of the job losses are concentrated in four sectors. In fact if engineering, textiles, leather and clothing, other manufacturing and construction could be ignored, Scotland would have experienced a net job gain of over 2,000 jobs. Although, as we noted earlier, electrical engineering has fared quite well recently, the engineering sector which also includes instrument engineering, mechanical engineering, ship-building and vehicles suffered a net loss of 10,000 jobs between June 1974 and June 1975. The vital question is how many of these are only temporarily lost and what scope is there for expansion in this sector once the current recession ends.

* Department of Employment Gazette

Amongst the sectors which have gained employees the most notable is public administration. Between June 1974 and June 1975 employment grew by nearly 16,000 in this sector. In percentage terms the increase is over 11% and as such is the largest growth in any sector in any region. One must surmise that the reorganisation of local government has been the main cause of this rise.

In June 1975 employment in Scotland accounted for 9.3% of total employment in Great Britain. Column 7 of Table 3 gives the corresponding proportion for each sector of employment. Scotland has considerably more than its proportionate share of employment in agriculture, food, drink and tobacco, and construction. Perhaps surprisingly it has only 8.3% of total British employment in engineering. The last two columns of Table 3 give the numbers unemployed in the different industries in June 1974 and June 1975. The only industry to experience a net decrease in unemployment between these two dates was mining and quarrying. The construction industry has been particularly hard hit.

Outlook for 1976

During the last part of 1975 the level of economic activity and employment in Scotland declined at a rate similar to that for the rest of the UK. While Scotland continued to maintain her improvement in relative unemployment, industrial production and employment fell in all sectors except coal and electrical engineering, and applications received for regional assistance fell sharply in October.

Aggregate output may be expected to decline further in the first quarter of 1976, and then to rise slowly through the second and third quarters. This implies the "trough" of the present recession in Scotland to be some six months later than for the UK as a whole, a lag which is consistent with observed and expected changes in rates of unemployment and with Scotland's previous experience during the business cycle. Similarly, we would expect a lower rate of growth in GDP in Scotland during 1976 than that forecast for the UK, though this must depend on the level of

North Sea oil activity during this year and the timing of the recovery in the building cycle.

Despite the modest revival in output, the implications for unemployment are for a continuous rise through 1976, with no prospect of a turning point until the end of the year or early 1977. Previous issues of the Commentary predicted unemployment levels of 127,000 for December 1975, about 140,000 for January, and 146,000 for March 1976. Recorded unemployment for December 1975 was about 130,000, somewhat higher than predicted, while the most recent unemployment figures, for January 1976, show a dramatic rise, to 162,000. A major component of this huge increase, however, is due to the registration of approximately 12,000 students; in addition, about 10,000 school-leavers entered the register in January, which is markedly higher than the expected number at this time of year. The former group will disappear from the register in the next two months, while there should be a slow decline in registered school-leavers. On this evidence, and taking into account the underlying trend, we would expect unemployment to be about 150,000 in March (excluding students), and to return to around the January level (also excluding students) by June 1976.

Although these forecasts are predicated on unchanged government policies, no alterations in policy can be expected to influence these trends in output and employment in the course of this year, and the scope for changes affecting the level of aggregate demand are in any case slight. As we pointed out last July, the painful adjustments required following the oil price rise in late 1973 and the consequent international recession could be postponed, but not avoided.