THE FRASER OF ALLANDER INSTITUTE

Quarterly Economic Commentary

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The Fraser of Allander Institute

The Fraser of Allander Institute was established in the University of Strathclyde on 1 January 1975. Its principal function is to carry out research on the Scottish economy and its research programme includes the analysis of short-term movements in economic activity. The results of this work are published each January, April, July and October in the Institute's Quarterly Economic Commentary. The Institute also publishes a series of Research Monographs to provide an outlet for original quantitative research on the Scottish economy, and a series of occasional essays on economic policy entitled Speculative Papers. In co-operation with the Scottish Council Research Institute and IBM United Kingdom Scientific Centre, the Institute is compiling a set of input-output tables for Scotland. The Institute wishes to thank The Scotsman Publications Limited for its financial support in the appointment of a Research Fellow to work on the construction of forecasting models.

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SUMMARY

World and United Kingdom

While different countries are now emerging from the recession at different rates, there are unmistakable signs of a slow but steady recovery in world trade and production. Particularly substantial evidence of progress is coming from the United States and West Germany, the stimulus in both countries coming largely from an increase in consumer spending.

It is clear that the monetary authorities' in both countries are following a policy of cautious expansion, which is calculated to further moderate the rate of domestic price increases. It seems unlikely, however, that unemployment will fall much below its present high levels before the end of the year.

In the United Kingdom, output has ceased to fall, although unemployment may go on rising ever more slowly until the last quarter of 1976. The attention of commentators and policy makers is being directed to the timing and speed of the recovery. While the prospects for exports are encouraging, the low level of manufacturing investment gives cause for concern. Consumer intentions remain uncertain.

Whatever the rate of recovery of aggregate demand may be, exports and investment must take a greater share of output, if progress is to be made towards a more secure economy. This makes it likely that real wages will continue to fall, particularly if unemployment levels are to be reduced.

Scotland

The first quarter of 1976 has seen a slowing down in the rate of increase of unemployment and there are indications of a 'bottoming' out of output. These generalisations, however, conceal wide disparities in the fortunes of different industries and different regions.

While the evidence is fragmentary, we are still inclined to adhere to the view, expressed in our last Commentary, that there has been a change in Scotland's economic position relative to the United Kingdom as a whole. This would imply that, unlike previous recessions, total output will fall proportionately less in Scotland, and that the upturn will take place not much later. However, optimism must be tinged with caution: any early recovery is likely to be a slow one.

So far as unemployment is concerned, this view suggests some levelling off in the autumn. Indeed, we believe that the rate of increase of unemployment will be further moderated in the next few months. Actual unemployment is likely to rise above 160,000 with the next influx of school leavers onto the labour market, although by October we expect the figure will be around 158,000 (or 153,000 seasonally adjusted).