

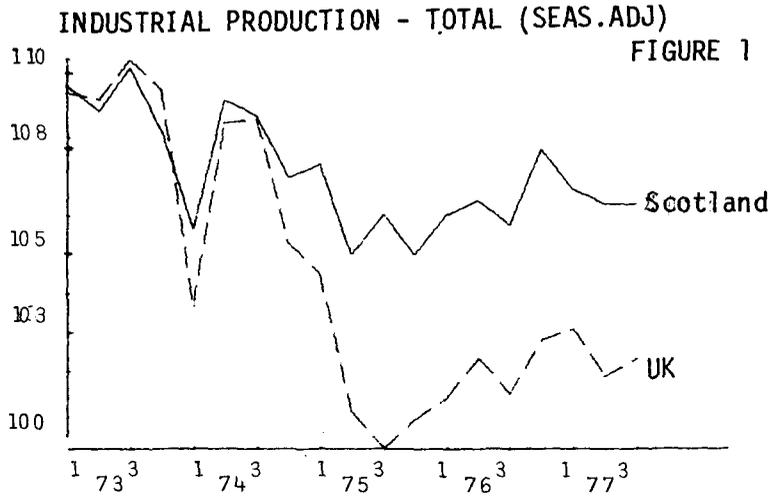
INDICATORS OF ECONOMIC ACTIVITY

SCOTTISH ECONOMY

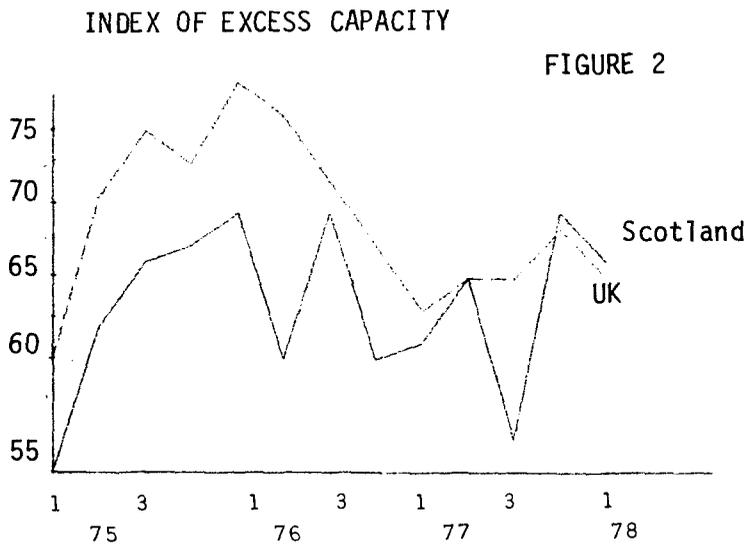
PRODUCTION

The overall index of industrial production (seasonally adjusted) remained static between the second and third quarters of 1977 at 106.7 (Figure 1). The unadjusted index fell sharply between the second and third quarters reflecting the July/August holiday period. In the UK, the adjusted index increased by 0.5 to 101.5, principally as a result of stronger performances in chemicals, metal manufacturing and electrical engineering. However, neither index is likely to show any appreciable growth during 1977, when the final figures are published. The stagnation of industrial output in all areas of the UK is a problem of mounting concern to policymakers, since there is little hope of reducing unemployment without a substantial increase in production. The National Institute expects industrial production to grow by 3% in the UK during 1978 and even this, they expect, will be insufficient to prevent the level of unemployment reaching 1.5 million in 1979.

The January 1978 CBI Industrial Trends Survey for Scotland revealed that a balance of 4% of firms had experienced increases in output over the past four months but a net 3% expected output to fall in the first four months of 1978. In the UK, the outturn to January



Source: S E P D



Source: CBI Industrial Trends

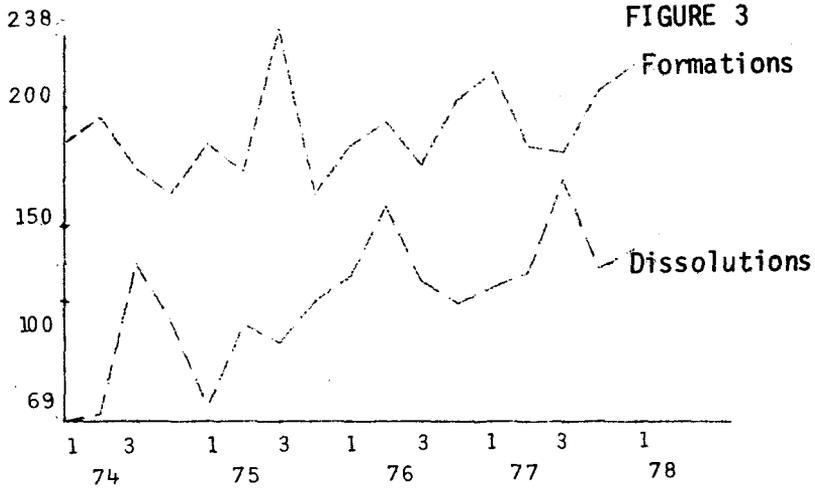
was similar to that in Scotland with a net 3% of firms increasing output. Expectations for the next four months, however, are much more buoyant, with a net 19% of firms expecting to increase output. Whether this is due to overoptimism on the part of non-Scottish CBI members or of a genuine deterioration in Scotland's relative output performance remains to be seen. In both Scotland and the UK the proportion of firms working below full capacity (Figure 2) fell by 3% in the four months up to January indicating, as do the output figures, some small revival in output towards the end of 1977.

The number of company formations in Scotland (Figure 3) was marginally higher in the first quarter of 1978 than the first quarter of 1977. However, the number of dissolutions increased more sharply to indicate that many firms are still finding trading conditions difficult.

In this section, for the first time, we present series on overtime working in Scotland, which have been collected by the Department of Employment. These, we would argue, are potentially useful indicators of changes in output since one would expect firms to initially expand overtime in order to accommodate increased order books. The main problem with this argument is that, of course, there are other influences on overtime hours. For instance, one might argue that the Employment Protection Act or the Redundancy Payments Act have given employers an incentive to increase the level of overtime worked. However, these are likely to be long term, rather than short term effects. Also there is a definite seasonal pattern in overtime working, with particularly sharp falls in January and August each year. Figure 4 shows the number of overtime hours worked weekly in Scotland, since January 1976. These show a definite upward trend during 1976, which we would argue is due to those once for all effects making for increased substitution of overtime for additional workers (and so to increased unemployment), rather than to any substantial increase in output. In the months up to January 1978, which all our other indicators suggest was a period of stagnating output, the weekly amount of overtime worked stabilised at just under 1,600,000 hours. The very low value for the most recent observation (January 1978) is primarily due to seasonal factors. However, controlling for seasonal and trend factors, there is certainly no indication from the recent data of a sharp rise in overtime, which might herald a revival in output.

In conclusion, all of the production indicators suggest that the level of output in Scotland is virtually static. Further, there seems to be no reason to expect a return to steady growth in the near future.

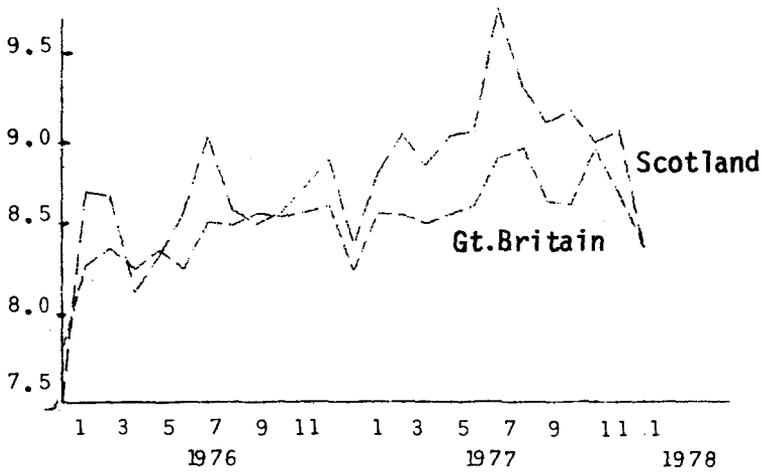
COMPANY FORMATIONS AND DISSOLUTIONS



Source: Registrar of Companies

AVERAGE HOURS OVERTIME

FIGURE 4



Source: Department of Employment Gazette

INVESTMENT

The seasonally adjusted output index for goods in Scotland fell by 1.0 to 104.6 in the third quarter of 1977, whereas the UK index only fell by 0.1 to 97.8. Investment intentions of Scottish firms, as measured by the January 1978 CBI Survey, are still very weak, both in an absolute sense and also relative to the UK as a whole. A balance of 13% of firms expect to spend more on machinery while a net 9% expect to spend less on buildings. In the UK, 21% expect to buy more plant while only 4% expect to cut their expenditure on buildings. The absence of any strong demand for industrial building is also indicated by the very slow increase in the placing of new (non-housing) orders by the private sector. In fact, at £54.75 million the value of these orders in the final quarter of 1978 was lower, even in monetary terms, than at any time since the first quarter of 1976. The value of regional development grant payments over £10,000 (see *Outlook and Appraisal* for a regional breakdown of these) in the final quarter of 1977 was £8.2 million compared with £7.5 million in the previous quarter. This weak revival still left the monetary value of regional grants more than £5 million short of the 1976/1977 average quarterly grant of £13.9 million.

The investment record thus remains gloomy and, at present, there are no grounds to expect even a moderate expansion during 1978.

CONSUMPTION

Output of consumer goods (seasonally adjusted) remained static between the second and third quarters of 1977 whereas in the UK as a whole output rose by 1.7%. Again the picture for this sector over this period is of Scottish output not growing as fast as, or declining more rapidly than, its UK counterpart. The demand for consumer goods should improve after the expansionary measures taken in the Budget, but it may be the case that households will initially increase their savings rather than consumption.

The National Institute expect some increase in the savings ratio and have revised downwards their recent forecast of consumption growth in the UK to 3.9%. Our impression is that this figure would be an upper limit to consumption growth in Scotland.

INDUSTRIAL PERFORMANCE

In this section, which was introduced in the last Commentary, trends in industrial performance are assessed. This issue also revises the industrial forecasts first produced in the October 1977 issue. All references to the quarterly index of industrial production figures in the text relate to the seasonally adjusted index values.

The 7½% devaluation in the green pound, approved earlier in the year, is currently being phased in. A 5% devaluation in the green pound for pigmeat and cattle has already taken place but the remaining 2½%, along with the full 7½% for milk, will not be brought in until May. The 7½% devaluation for cereals will take place at the beginning of August.

AGRICULTURE

The livestock industry has been experiencing particular difficulties. Census figures for 1977 from the Scottish Department of Agriculture report a 10% decline in pig numbers; a 1% drop in cattle, and unchanged dairy cow herds and sheep numbers. The figures for pigs in gilt and heifers in calf reveal a more substantial decline. UK Beef production is expected to fall slightly during 1978; prices are rising slowly with a seasonal peak expected in June. UK lamb production is expected to rise marginally during 1978; hogget prices in Scotland are lower than at the same time last year. The EEC are at present considering proposals for a sheepmeat regime. Devaluation of the green pound for pigmeat was expected to increase the wholesale price of bacon and reduce the Danish share of the British market. Danish bacon producers received a monetary compensation amount (MCA) of £236 per tonne before devaluation, but are still receiving £229 per tonne due to the recent further devaluation of sterling vis-a-vis the European currencies.

The reintroduction in the Budget of free school milk to 7-11 year olds will assist milk sales. A report from the North of Scotland Milk Marketing Board records a 2% reduction in cow numbers but a 3% increase in production. There was a substantial increase in the 1977 yields of cereals and potatoes after two dry years. Cereals are experiencing renewed home demand and the price has firmed. Potato growers have been advised not to overplant this year.

FISHING

The sixteen month dispute between the UK and the EEC on a common fisheries policy continues. The quotas proposed by the EEC Commission in January were rejected by the British government and the temporary informal agreement to keep catches to the 1976 rates, pending a settlement, has been prolonged. A further meeting is scheduled for the end of April. The ban on herring fishing in the North Sea is likely to be maintained during 1978. The consequent overfishing of herring on the west coast has had disastrous effects on stocks. Members of the Scottish Fishermen's Organisation have cut back catches to 300 tonnes per week and they have called for a total ban (with or without EEC approval) on west coast herring fishing.

In spite of the current restrictions and poor catches Scottish fishermen landed a record £117 million worth of fish in 1977. The value increased by £31 million over the previous year, but the volume declined by 30,000 tonnes, mainly due to the greatly reduced herring catches.

COAL

As a result of the recently negotiated pay settlement, which included a new output bonus scheme, productivity in Scottish coalmines has increased dramatically. Although there is still some dissension in pits where bonuses are low, there is likely to be a fairly substantial increase in coal output in Scotland during 1978.

OIL & GAS

Production of North Sea oil reached 947,961 barrels a day in February and will exceed a million barrels a day within the next few months. It is expected, however, that production for 1978 will be within 55 to 65 million tonne range - slightly lower than the 60 to 70 million tonnes forecast last Spring. The start up of production from the Thistle field, delayed by bad weather, is now imminent. The large Ninian field, where a number of setbacks have also occurred, is expected to be onstream by the Autumn.

Exploration rights in 28 blocks, allocated in 1971, have been handed back to the government. Some potentially interesting areas have been surrendered and they may be offered in future rounds. Recent exploration interest in the West Shetland area has been reinforced by the Elf find in Block 206/7. Philips have made

a new discovery between its Toni and Thelma finds; while BP has abandoned its northern deep water well in Block 211/2.

There is still uncertainty about Brae's potential and estimates of recoverable reserves range from 180 to 560 million barrels. The 10th and 11th drillings were successful and positive results from the 12th drilling may ensure early development of the southern portion. Progress has been made in plans for developing other fields. BP has been given permission to exploit the Buchan field with the proviso that it will be confiscated after four years if the Department of Energy is not satisfied with the production method. The company intend to use a semi-submersible floating production and offshore loading system which could well be the forerunner of other movable production systems. BP have submitted a plan for their Magnus field which is believed to involve the largest steel platform to be built in the North Sea. Shell and Esso have commissioned a steel platform design for their Cormorant field and if plans are approved an order should be placed later in the year. Mesa are revising their development plans for Beatrice. Their proposals, now including a subsea pipeline to the Cromarty Firth, are expected to be resubmitted soon and approval could follow swiftly.

The government White Paper on oil revenues entitled "The Challenge of North Sea Oil" has finally been published. It rejects the idea of a separate oil fund and is a general, non-specific, statement of government intent. It stresses that the greater part of the oil revenues should go to industrial regeneration and expansion. A brief section on regional policy recommends that the SDA budget should be increased from £60 million to £82 million.

As anticipated the premium on North Sea prices has declined slightly as a result of a current world oil surplus. In 1977 at least 40% of North Sea crude oil was exported and opposition from the oil companies will grow if the government insists that 60% of North Sea output continued to be refined in the UK.

The study group has not made its final report on the feasibility of a gas gathering project. Provisional outline planning permission has been given to Shell for a gas separation plant at Moss Morran and the final decision will be made at the end of April. The plant could be operating by 1980, when gas from the Brent field will reach its peak. The Cromarty Firth is being actively promoted by the three development authorities concerned as a further site for a petro-chemical complex.

*FOOD, DRINK
& TOBACCO*

No change in the output of food, drink and tobacco was recorded in the third quarter of 1977. Any increase in output in 1977 over 1976 now seems unlikely. In contrast, UK output in this industry is provisionally estimated to have grown by $1\frac{1}{2}\%$ during 1977. This contrasts with the historical trend which has seen Scottish output grow nearly twice as fast as UK output during the period 1965-1975 and has consequently caused a substantial downward revision of our forecast, from 5% to 2%, of growth in this sector during 1978. This is 1% lower than the National Institute forecast for the UK as a whole. Since, as is detailed below, whisky output increased during 1977, the poor performance of the industry must be caused by declines in the output of food and/or tobacco. The difficulties in the food industry are exemplified by the cutbacks by Spillers. The closure of their bread-making operations will result in over 900 redundancies in Scotland, nearly all in Strathclyde.

WHISKY

Whisky production in 1977 was 151.6 million proof gallons compared with 139.5 million proof gallons in 1976. Home market sales recorded a sharp drop from 18.66 million gallons in 1976 to 15.51 million gallons in 1977. Although there is a downward trend there was considerable stocking up during November and December 1976 and the average of the two years is roughly equal to the 1975 figure. Exports were a record £512.6 million in 1977. There was a volume increase of 2% compared with 8 to 9% increases in the early 1970's. Returns for the first two months of 1978 further illustrate the slowing down in export growth. The fall in exports to the important American market for the third successive year has been largely responsible for the slackening in the volume of exports overall. Exports of bottled blends to the United States fell by 5.5% in 1977, bulk blends by only 0.38% and bottled malts (a minor part of the trade) rose by a massive 48.6%. However, Scotch has maintained its share of the declining American whisky market and is well placed to benefit from the signs of recovery that some observers are predicting. Following the Distillers Company and EEC dual pricing dispute, a number of price rises, and impending price rises, have been announced. Distillers raised their export prices by 10% in February. and Bells and Teachers are awaiting Price Commission acceptance of their applications to raise prices.

*METAL
MANUFACTURE*

Output of metals continued to decline in the third quarter of 1977. Output fell to only 71% of 1970 levels and the continued depressed state of world steel markets gives little hope of substantial improvement during 1978. A growth of output of $1\frac{1}{2}\%$ over 1977 is expected in the UK by the National

Institute. In Scotland we expect a rise in output of around 3%. However, any strong long-term revival of the Scottish steel industry now seems unlikely after the announcement of the government plan to defer any expansion at Hunsterston or Ravenscraig. The financial difficulties of BSC are also likely to bring about the closure of Glengarnock as indicated in our last Commentary.

ENGINEERING

The output of Scottish engineering industries declined in the third quarter of 1977 by 1% to an index level of 104. Although electrical engineering has grown considerably faster than other engineering activity in recent years, its output declined slightly between the second and third quarters, down to an index level of 165. Growth during 1977 may fall short of our 9% October forecast, a figure of 5% perhaps being more realistic. A rise of 3½% in the UK output in this sector is anticipated by the National Institute and, in line with this, we would expect a further 5% rise in Scottish electrical engineering output during 1978. The likely success of Babcock and Wilcox in securing an export order from Hong Kong is encouraging, since it operates in the heavy electrical goods market, an area whose prospects recently have been much less favourable than those of, say, electronics.

In mechanical engineering, output marginally increased during the third quarter of 1977 to 93% of 1970 production levels. Optimism is not strong, although there was a significant £14 million increase in lending by the Scottish banks to the industry between the last quarter of 1977 and the first quarter 1978. Production may pick up very slowly during 1978 with growth unlikely to exceed the 2½% forecasts by the National Institute for the UK. Further appreciation of the pound is seen as a possible obstacle to exports. However, the probability of an additional increase in the value of sterling will recede if an expansionary budget sucks in imports. The purchase by Pan-American of a number of Roll Royce powered Lockheed Tristars will considerably strengthen the Scottish plants of the aero-engine firm.

Estimates of the market for inspection, repairs and maintenance in the North Sea continue to rise as companies become aware of further unforeseen complications, as for example the recently publicised problems arising from extensive corrosion. The Scottish Council puts the cost at £90 million a year at present and the Department of Energy suggests it could be in the region of £177 to £400 million by the early 1980's.

Reports from the Offshore Supplies Office indicate that British firms accounted for approximately 65% of orders for supplies and services in 1977. Scott Lithgow have formed an offshore company to take advantage of the growth in the offshore market. France Entreprises have acquired a 25% stake in Burntisland Engineers, the module yard, and are seeking joint contracts to utilise the facilities of the two firms. On a less optimistic note the 300 employees at Lewis Offshore have been given redundancy notices to take effect from June.

Production of vehicles (including ships and aircraft) fell during the third quarter of 1977 to 81% of 1970 levels. However, even though the figures for the final quarter will be badly affected by the strike at Chrysler Linwood, output for the year as a whole is likely to exceed that of 1976. Further expansion of output during 1978 also seems likely, especially given the improved industrial relations and productivity at Linwood. The Scottish plants of British Leyland were amongst its few profitable ventures last year, and the company intends to invest a total of £50 million in them by 1983. The Scottish Development Agency have moved into the specialised vehicle market by taking over control of Stonefield Vehicles Limited and expect to market 2000 of its trucks each year.

During November and December 1977, 12,167 cars were registered in Scotland - 8% of the Great Britain total. Low sales in December will have resulted primarily from deferrals so that new cars could be registered in 1978.

At the end of 1977 world shipbuilding orders were at their lowest level for ten years. Although the UK improved its world ranking to fourth place in volume, the 2.2 million tons on order or under construction represents only half of the potential capacity of UK yards.

The reallocation of the four Swan Hunter 16,500 ton bulk carriers from the controversial Polish order has further increased the Scottish share of the order. Govan Shipbuilders now have ten 4,400 and four 16,500 ton vessels to build for the Polish contract. The company's order book stands at eighteen vessels, valued at £100 million. Robb Caledon in Dundee have been given a third bulk carrier, originally assigned to Swan Hunter, and are already building two other ships. The company's Leith yard has two crane barges, from the Polish order, and continuous work at both yards is now ensured, after redundancy threats, until 1979. British Shipbuilders have agreed to take over Ailsa Shipbuilders - the largest independent yard outside the British Shipbuilders group. They have had severe cash flow problems and difficulties in

competing with state backed yards. It is now expected that one of the 4,400 Polish bulk carriers could be transferred from Govan. Scotts and Ferguson Brothers of the Scott Lithgow group have had a spate of new orders - worth £8.5 million - since the beginning of the year. In consequence the combined workforce have secure jobs for the next eighteen months. Scott Lithgow consider, however, that their immediate future could lie in offshore vessels rather than merchant shipping.

There is now a rapidly growing market for vessels designed for repair and maintenance activities in the North Sea. After some delay in recognising the importance of this market, British Shipbuilders now aim to obtain orders in three sectors - emergency and maintenance support vessels, deep water platforms and supply boats. Slow delivery by UK yards was a crucial factor in the decision by Occidental to order a £25 million maintenance and support vessel from Japan. BP are at present considering tenders from five UK yards, including Scott Lithgow, including Scott Lithgow, for a vessel for their Forties Field. It is expected that orders for another six or seven vessels will be placed over the next two years and ten vessels could be in service by the 1980's. They will have substantial running costs - estimated at £10 million in a year.

Yarrows are presently constructing five frigates for the Royal Navy but are planning to concentrate on winning orders in the fast-growing patrol vessel market.

*TEXTILES, LEATHER
AND CLOTHING*

Contrasting fortunes in the textile, leather and clothing industry underlie a small fall in output during the third quarter of 1977. In Alloa, Patons & Baldwins have declared 95 employees redundant following a decline in the hand knitting market. In contrast, the demand for high quality knitwear from the Borders is still high, although the decline in the value of the dollar has adversely affected American prospects. Producers of lower quality goods for the domestic market take a more pessimistic view, although the expansion of consumers real disposable income have some small stimulating effect. The National Institute expects UK growth in this sector to be around 2½% in 1978. It is our view that growth in Scotland is unlikely to exceed this figure during the year.

*BRICKS, POTTERY,
GLASS & CEMENT*

A sharp rise in output during the third quarter of 1977 suggests that growth in this sector will be close to the 1% figure which we forecast last October. As indicated in our last Commentary a large increase in the demand for glass has been the primary stimulus for this expansion. The recent announcement by the SDA of a plan to expand the capacity of Caithness Glass Limited in Perth will further increase the output of high quality glass in Scotland. In the ceramics industry, plans by Dunoon Ceramics Limited to double capacity will lead to the provision of an additional 70 jobs. Increased output of building materials still awaits expansion in the construction industry.

*TIMBER,
FURNITURE*

A sharp decline in output in this sector during the last quarter of 1977 suggests that our October forecast of a 9% fall in production during 1977 may not have been too pessimistic. The National Institute expects that growth in this area will be around 2% in 1978. We would expect that, if there is some revival in the construction industry, growth of around 4% during 1978 is possible in Scotland.

PAPER

Again, paper, printing and publishing was an industry which suffered a decline in output during the third quarter of 1977, this time down to 82% of 1970 levels. Continued lack of growth in demand for paper and an increase in imports mean that prospects for growth remain gloomy. The National Institute expects a growth rate of 2½% for UK output in this industry, a rate which is unlikely to be substantially exceeded in Scotland. One hopeful feature is the expansion by the greetings card manufacturers, Valentines, in Dundee, creating an additional 300 jobs.

CONSTRUCTION

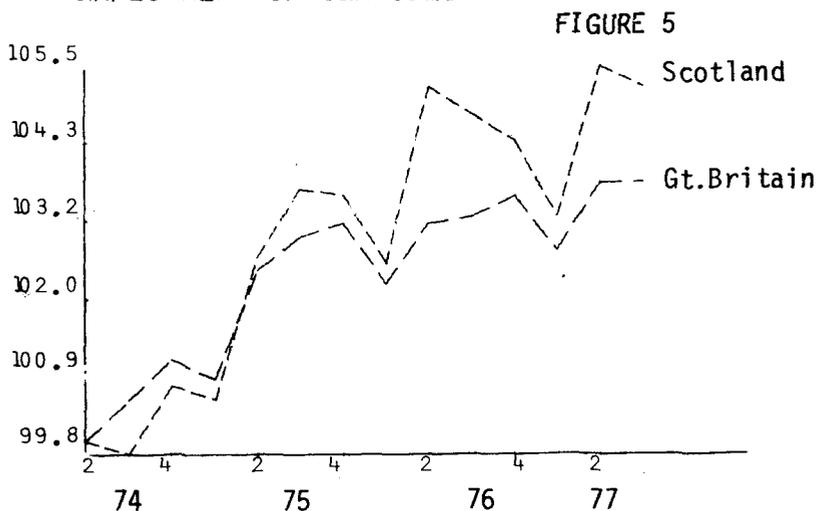
Still managing only a very weak revival from the very poor performance of early 1977, the index of production for the construction industry increased by 1% to stand at a level of 96 in the third quarter of 1977. Figures for the value of orders received in the fourth quarter of 1977 also reflect the sluggish state of the market for new buildings. Orders for non-housing construction rose by 7.3% in the public sector but fell drastically by 36.2% in the private sector. The value of orders for housing in the public sector fell marginally in the final quarter of 1977, but an increase of 15.6% in new orders for private housing in the same period is likely to be sustained into 1978 due to the revival of the housing market.

The latest North Sea report by Wood Mackenzie envisages twelve platform orders being placed during 1978, of which at least eleven will be steel structures. The report suggests that the present popularity of steel platforms, compared to concrete, is due in part to a relative price advantage and in part to an adherence to a more familiar, tested technology. After 1980 the development of smaller more complex reserves may demand new design concepts and a revival in other structures including concrete. At present, and in the immediate future, the West coast still faces a dearth of concrete platform orders. A renewal of planning permission for a possible development is inevitable. McAlpines, at Ardyne Point, are committed to stay open until the end of the year and have applied for a planning extension to build other structures. The Ninian platform is to be completed this spring at Howard Doris and they will then have no work in hand. They are currently pursuing a further order. On the east coast the steel yards could face a short term 'boom' period for orders. McDermotts and Redpath Dorman Long have work until 1979, while Highland Fabricators will complete their work for the Ninian field this year.

EMPLOYMENT AND UNEMPLOYMENT

At 2,077,000, the estimated number of employees in employment in Scotland in September 1977 was unchanged from the June 1977 estimate. A fall of 4,000 in service employment, Figure 5 was offset by rises of 3,000 in manufacturing, Figure 6, and 1,000 in agriculture forestry and fishing. It is interesting to note that the level

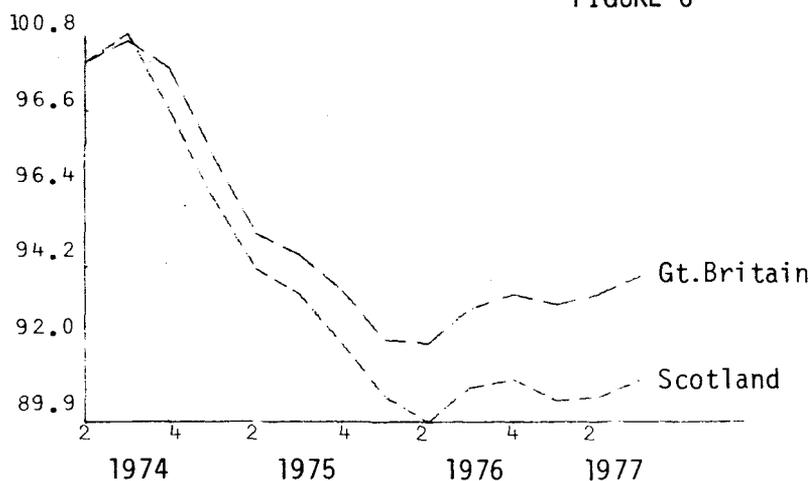
EMPLOYMENT IN SERVICES



of employment in September 1977 was only 4,000 less than that of September 1975, whereas the level of unemployment was 59,500 greater. This amply illustrates the problems which arise when the supply of labour is rapidly expanding. Simply maintaining the level of employment is insufficient to prevent unemployment from rising steeply. New jobs have to be constantly created in order simply to stabilise the level of unemployment.

EMPLOYMENT IN MANUFACTURING

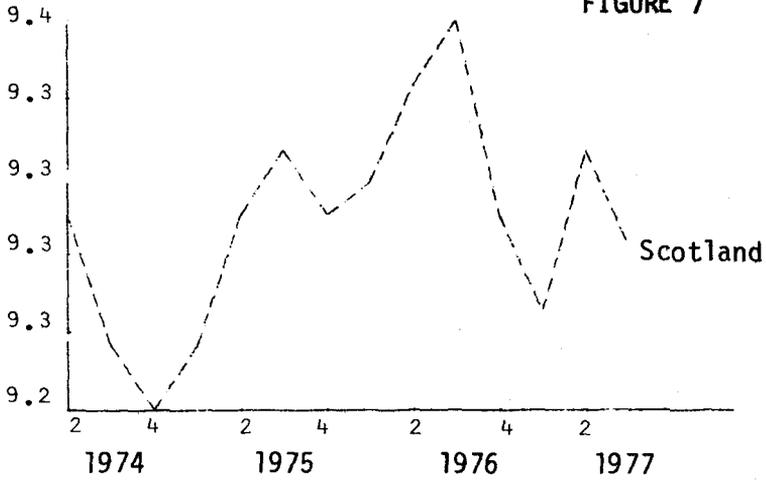
FIGURE 6



One reason for the decline in service employment has been the public expenditure cutbacks which have forced local authorities to reduce their payroll. A disturbing feature of this phenomenon is that the staff reductions in Scotland appear to have been much more severe than those in other parts of the UK. Between September 1976 and September 1977 the number of full time equivalent jobs in Scottish local authorities declined by 4.1% to 245,500. In contrast the decline in England was 1.1% and in Wales the number of full time equivalents fell only by 0.8%. The actual reduction in manpower in Scotland was partly offset by an expansion of the job creation programme, which has been heavily utilised in Scotland, relative to other areas. The short-term nature of this employment however, means that prospects for stable employment in local authorities are considerably poorer in Scotland than in other parts of the UK. Of course, reductions in local authority manpower have resulted in a decline in the real amount of revenue needed to be raised through rates. The consequent increases in consumer's disposable income, however, are unlikely to cause an offsetting rise in local private employment because of the high propensity of consumers to buy non-local goods or to save out of the additional income.

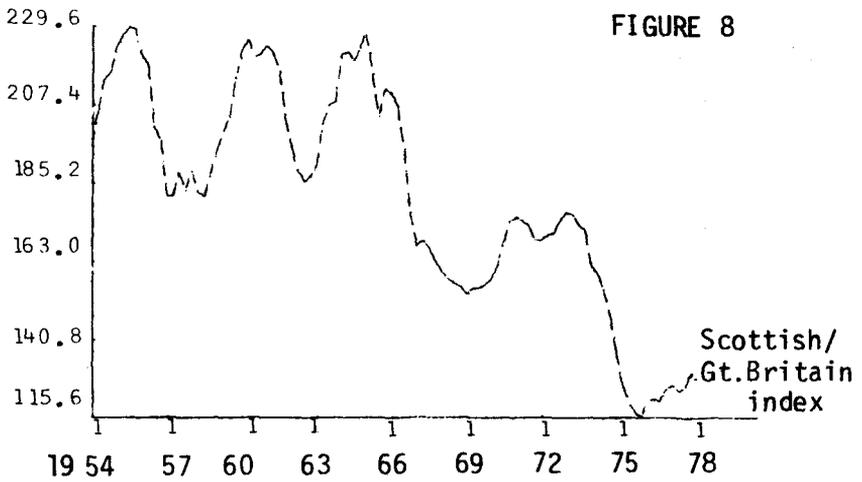
SCOTTISH EMPLOYMENT AS % OF GB

FIGURE 7



UNEMPLOYMENT RELATIVE * SCOT/GB, 1954-78

FIGURE 8



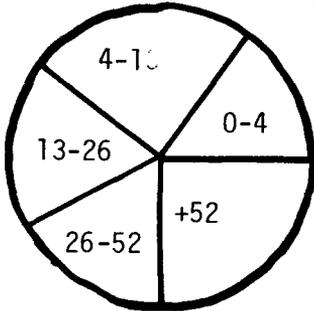
At the industry level, there have been substantial changes in the distribution of employment between September 1975 and 1977. Aside from the decline in public administration already discussed, substantial declines have taken place in engineering, construction and metal manufacture. The 10,000 reduction in engineering employment must be a matter of some concern since, over the same period, engineering employment in Great Britain expanded by some 3,000. This certainly indicates some weakening in the strength of Scotland's industrial base. In contrast, while employment in textiles in Great Britain declined between 1975 and 1977, in Scotland employment expanded by over 2,000, probably as a result of the different type and quality of goods being offered by Scottish producers. The most rapidly expanding industry, in terms of employment, has been financial, professional and miscellaneous services. Over the period, employment in this sector expanded by 34,000 to reach 662,000, 46,000 more- than total employment in manufacturing.

As a proportion of total employment in Great Britain, employment in Scotland declined marginally from 9.37% to 9.34% between the second and third quarters of 1977, (Figure 7) . No clear trend in this proportion is apparent. In 1965 it stood at 9.35%. However, the corresponding unemployment proportion has been expanding throughout 1977, (see Figure 8). In September 1977 unemployment in Scotland was 12.2% of the GB total and in March 1978 it was 13.7%

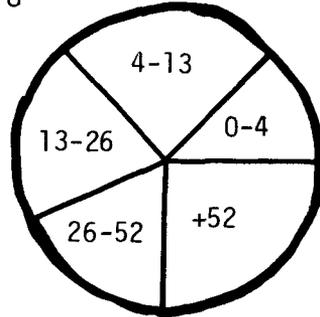
A detailed analysis by age, sex and duration of January's unemployment figures reveals that Scotland is over-represented in all categories, but especially so amongst women and prime age (20-40) males. The duration of unemployment continues to increase with the January figures revealing that over 75% of the unemployed had been out of work for more than two months. Nearly 35,000 males in Scotland had been unemployed for more than one year.

The female/male unemployment relative seems to have stabilised with about 46 women out of work for every 100 men, a slight drop on the latter half of last year though still historically high.

DURATION OF UNEMPLOYMENT IN WEEKS - MALES
January 1978



SCOTLAND



BRITAIN

MALES

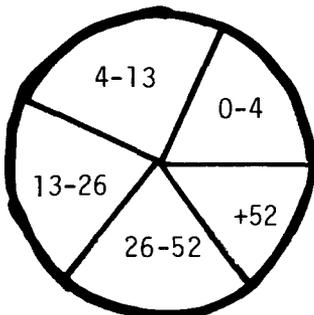
Scotland	Weeks	G.Britain
15.01%	0-4	12.65%
24.50%	4-13	24.31%
18.36%	13-26	19.71%
17.54%	26-52	17.86%
<u>24.59%</u>	52 +	<u>25.47%</u>
139493		1070179

FEMALES

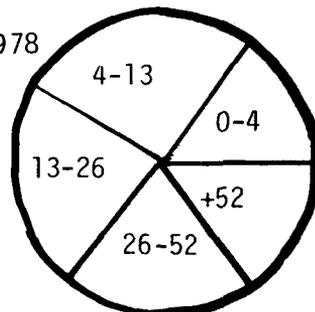
Scotland	Weeks	G.Britain
18.39%	0-4	15.22%
24.70%	4-13	26.08%
21.41%	13-26	23.22%
20.99%	26-52	20.67%
<u>14.50%</u>	52 +	<u>14.80%</u>
64136		414508

DURATION OF UNEMPLOYMENT IN WEEKS - FEMALES

January 1978



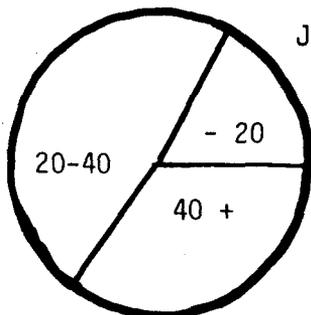
SCOTLAND



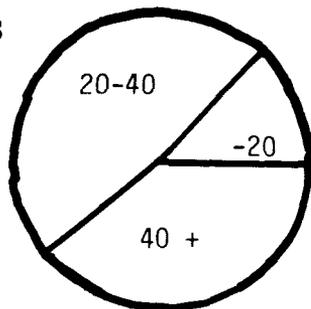
BRITAIN

AGE OF UNEMPLOYED - MALES

January 1978



SCOTLAND



BRITAIN

MALES

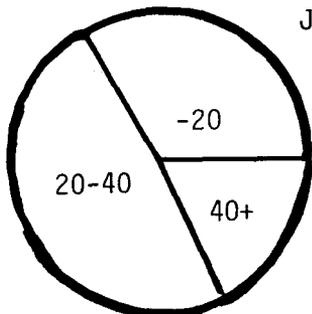
Scotland	Age	G.Britain
17.50%	- 20	13.30%
47.83%	20-40	47.37%
<u>34.67%</u>	40 +	<u>39.33%</u>
139493		1070179

FEMALES

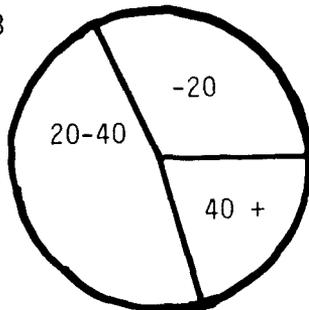
Scotland	Age	G.Britain
33.16%	- 20	31.96%
48.90%	20-40	47.39%
<u>17.94%</u>	40 +	<u>20.65%</u>
64136		414508

AGE OF UNEMPLOYED - FEMALES

January 1978



SCOTLAND



BRITAIN

Recent work by the US Bureau of Labour Statistics has enabled us to present a series of unemployment rates for various Western countries for the last eight years. To this we have added a crude estimate of Scottish unemployment likewise adjusted to US concepts. This was done by first multiplying the "British adjusted rate" by an unemployment relative

Scottish Registered Unemployment Rate

G.Britain Registered Unemployment Rate

and then adapting this figure to take account of such differences as varying incidences of registration, available from the Census and General Household Surveys. In essence these national statistics have been adjusted "to cover all persons seeking work, whether or not they register with employment exchanges".

Table 1 Unemployment Rates, 1970-7, Adjusted to US Concepts

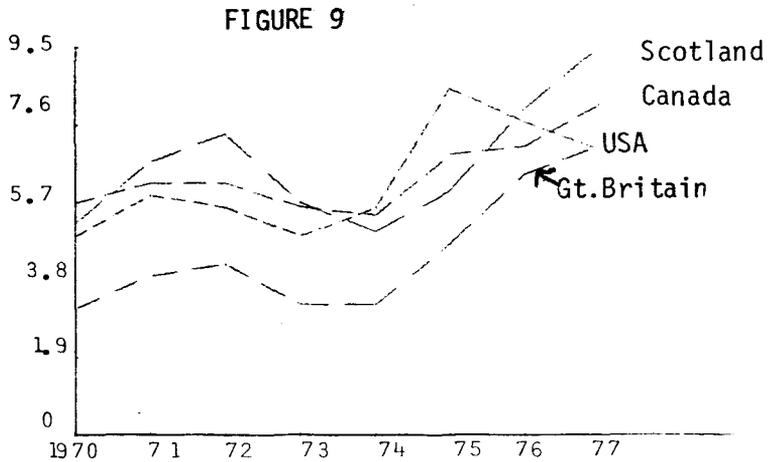
Year	United States	Canada	Great Britain	Scotland	France	West Germany	Italy	Sweden
1970	4.9	5.7	3.1	5.2	2.8	0.8	3.5	1.5
1971	5.9	6.2	3.9	6.7	3.0	0.8	3.5	2.6
1972	4.9	6.2	4.2	7.4	3.0	0.8	4.0	2.7
1973	4.9	5.6	3.2	5.7	2.9	0.8	3.8	2.5
1974	5.6	5.4	3.2	5.0	3.1	1.7	3.2	2.0
1975	8.5	6.9	4.7	6.0	4.3	3.8	3.7	1.6
1976	7.7	7.1	6.4	8.0	4.6	3.8	4.0	1.6
1977	7.0	8.1	7.1	9.5	5.3	3.5	3.3	1.6

*Source: Monthly Labour Review April 1977,
Bureau of Labour Statistics & Estimates*

With regard to Table 1 there are several important observations to be made:

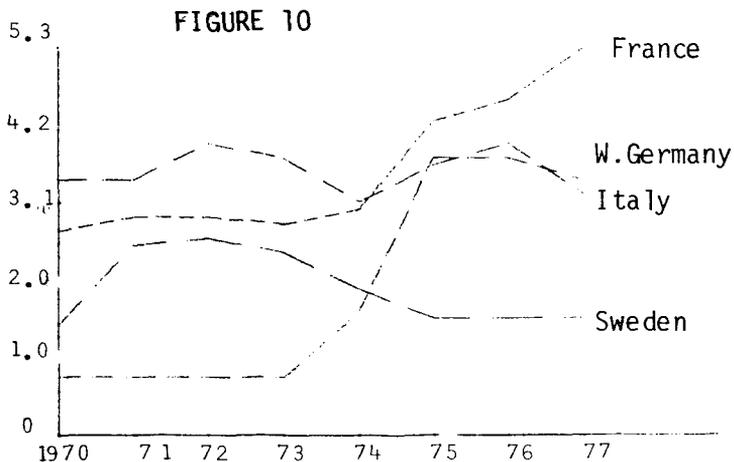
1. The Scottish and British figures are much higher than those published by the Department of Employment. Primarily this is because of the inclusion of the unregistered unemployed; a group consisting mainly of married women who do not qualify for benefits, but also a substantial proportion of disabled, sick and "discouraged workers". The proportion of unemployed who do not register has been declining for some time as a result of a number of factors; there is now less stigma attached to "signing on";

INTERNATIONAL UNEMPLOYMENT RATES - 1970-77



more women are paying full stamps and are therefore entitled to unemployment benefit; the Jobcentres now actively encourage those seeking work to register.

INTERNATIONAL UNEMPLOYMENT RATES - 1970-77



2. Internationally Scotland has high, and consistently high unemployment.

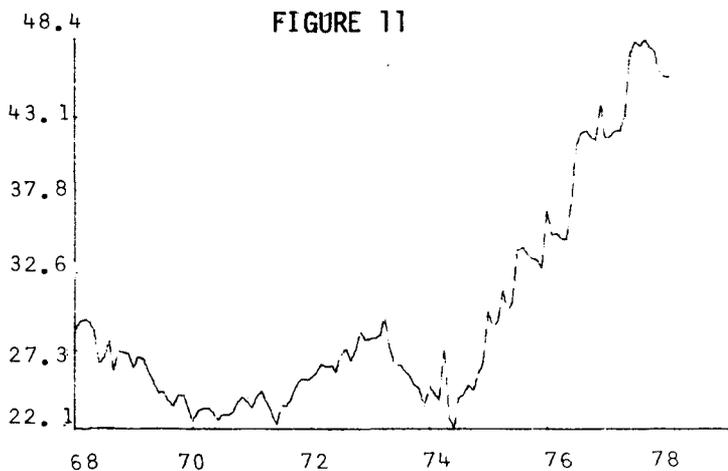
Unemployment & Vacancies in the Regions of the UK: March 1978

	Unemployment (000's)	Unemployment Rate	Vacancies (000's)	Unemployment/ Vacancies
South-East	323.3	4.3	90.5	3.6
East Anglia	37.3	5.3	6.3	5.9
South West	111.8	6.9	11.9	9.4
W Midlands	123.7	5.3	14.0	8.9
E Midlands	79.1	5.0	13.5	5.8
Yorks & Humberside	120.8	5.8	14.8	8.2
North-West	205.4	7.2	16.4	12.5
North	118.2	8.7	10.8	10.9
Wales	88.5	8.3	8.8	10.0
N Ireland	62.0	11.4	2.2	27.8
Strathclyde	110.9	10.2	8.9	12.4
Rest of Scotland	80.1	7.1	12.3	6.5
Scotland	191.0	8.6	21.2	9.0

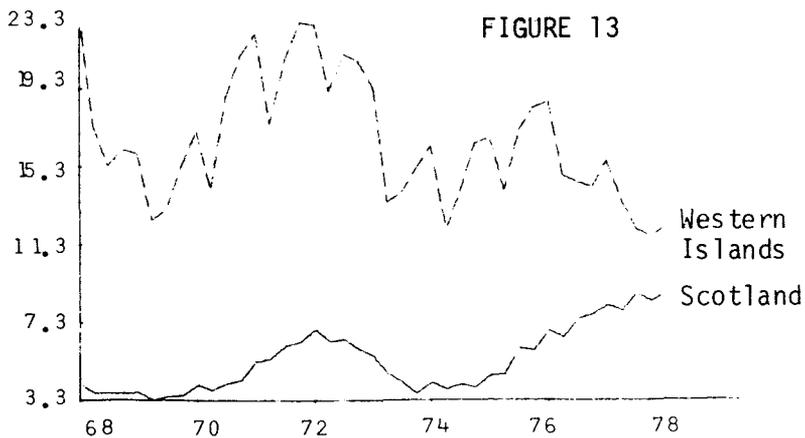
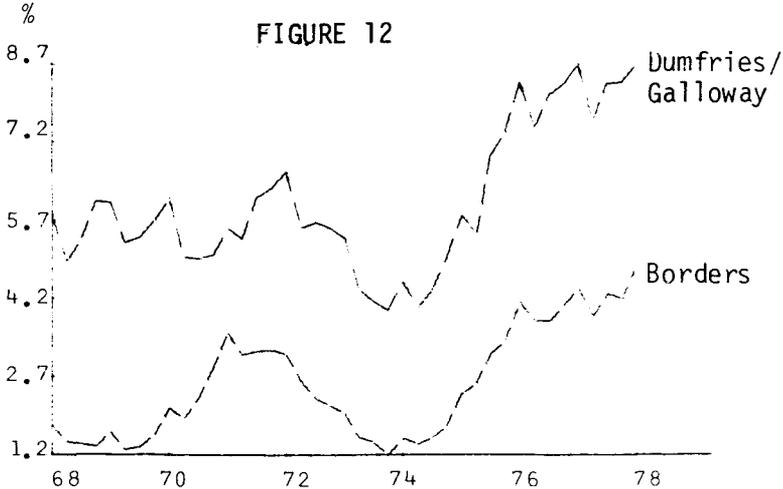
Unemployment in the Scottish Regions: March 1978

	Sept '77 (000's)	December '77 (000's)	Percentage Change	Unemployment Rate
Highlands	7.1	7.1	- 0.7	9.5
Shetland	0.2	0.2	-13.3	2.8
Orkney	0.3	0.3	+ 7.1	5.2
Western Isles	1.0	0.8	-15.2	10.3
Grampian	8.3	8.9	+ 6.6	5.0
Tayside	12.9	13.6	+ 5.7	8.0
Fife	10.3	10.6	+ 2.7	8.0
Strathclyde	108.7	110.9	+ 2.0	10.2
Lothian	23.4	24.1	+ 2.8	7.1
Central	7.8	8.2	+ 5.6	7.4
Dumfries & Galloway	4.4	4.5	+ 1.9	8.4
Borders	1.7	1.8	+ 7.9	4.6
Scotland	186.2	191.0	+ 2.6	8.6

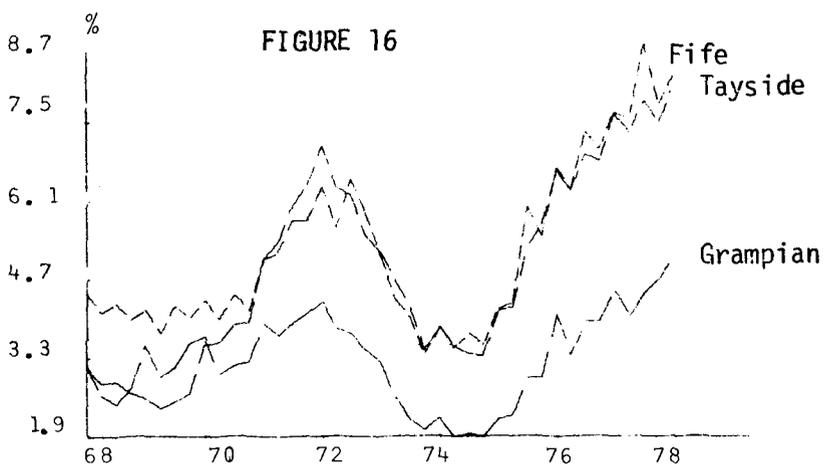
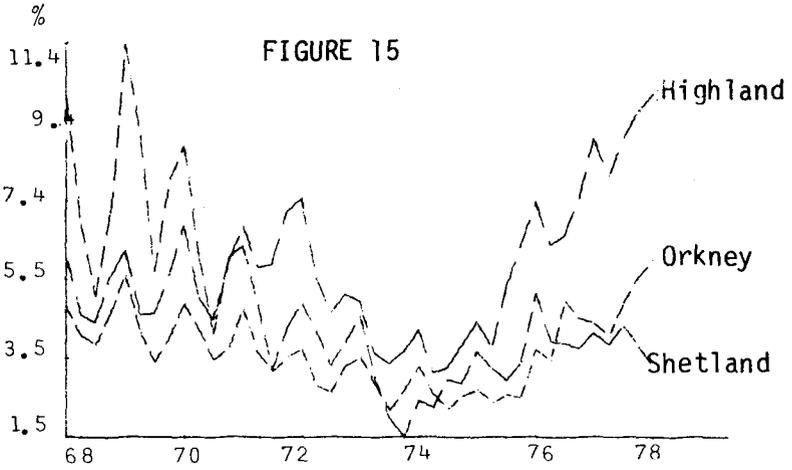
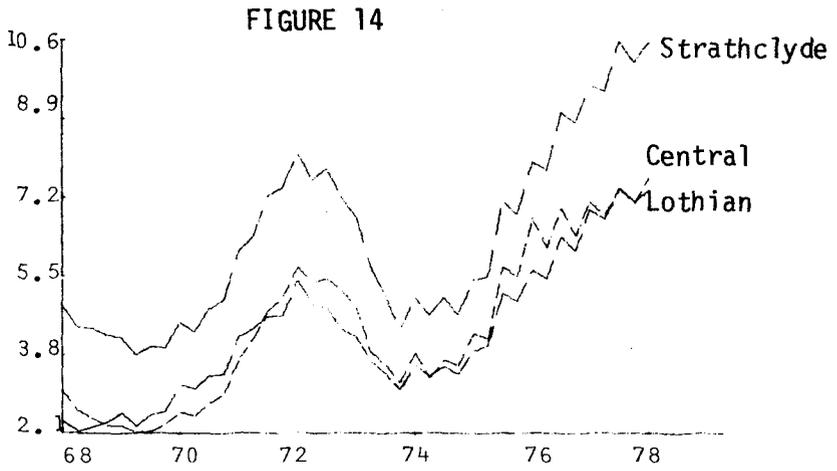
UNEMPLOYMENT RELATIVE • FEMALE/MALE * 100



REGIONAL UNEMPLOYMENT RATES • 1966-78



REGIONAL UNEMPLOYMENT RATES 1968-78



OUTLOOK AND APPRAISAL

In this issue, as well as analysing the outlook for the Scottish economy in the short-term, this section contains an analysis of the allocation of regional development grants within Scotland.

Regional Development Grants

Regional Development Grants were introduced under the 1972 Industry Act to encourage capital expenditure in the development areas. These non-selective grants are payable on expenditure on new plant, machinery and buildings at the rate of 22% in the special development areas and 20% in the development areas. Nearly all of Scotland has development area status and a large proportion of the West of Scotland has special development area status. A quarterly breakdown of grants, whose value exceeds £10,000 is published in Trade and Industry (HMSO). Information on the name of the firm and the location of the plant is given. Data on grants for the period 1975-1977 have been processed in the Institute and allocated to the local authority regions in which they are payable.

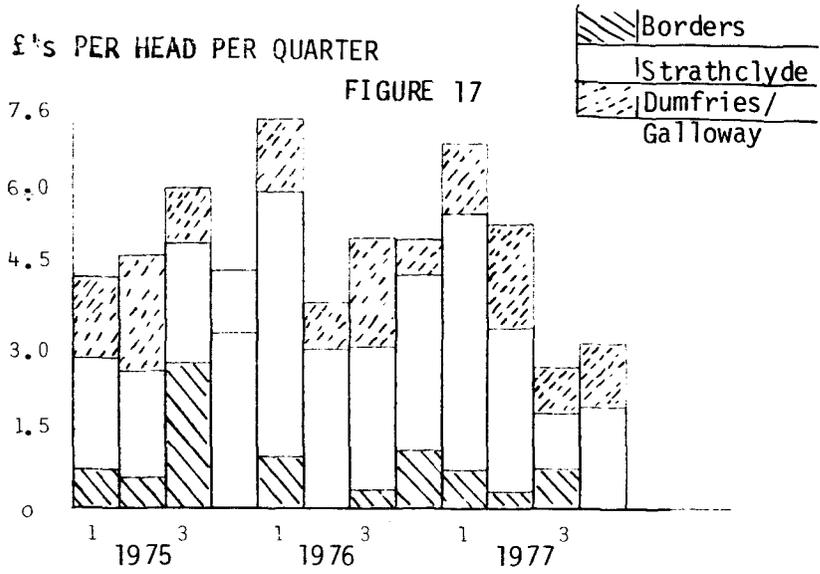
Series on investment grants thus generated were divided by regional population to enable comparison of their incidence between different areas. It could be argued that the results provide a good indicator of movements in manufacturing investment in the regions, since few firms will not take advantage of the cash benefits offered under the Act. However, two caveats must be stated: firstly, grants under £10,000 are not included in the published statistics and secondly, occasionally, grants are given not specifically to one plant, but to a number of unspecified locations and one consequently cannot allocate these to a particular region. Thus, for 1976/77 the total grant which we are able to allocate comprises 60% of the total amount made available in Scotland in regional development grants. If the spatial distribution of grants under £10,000 and those that are not allocated to a single plant is random when normalised by population then the series presented in Figures 17, 18 and 19 will still give a rough indication of fluctuations in regional investment.

The main features of the results are:

- (a) the wide fluctuations in grant per head, especially in the smaller regions. This is to be expected, given the 'lumpy' nature of capital investment.

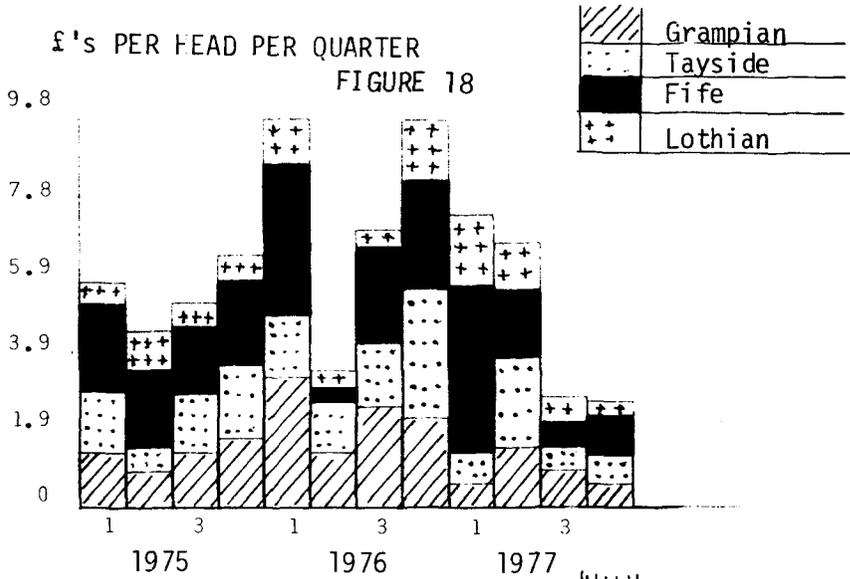
£'s PER HEAD PER QUARTER

FIGURE 17



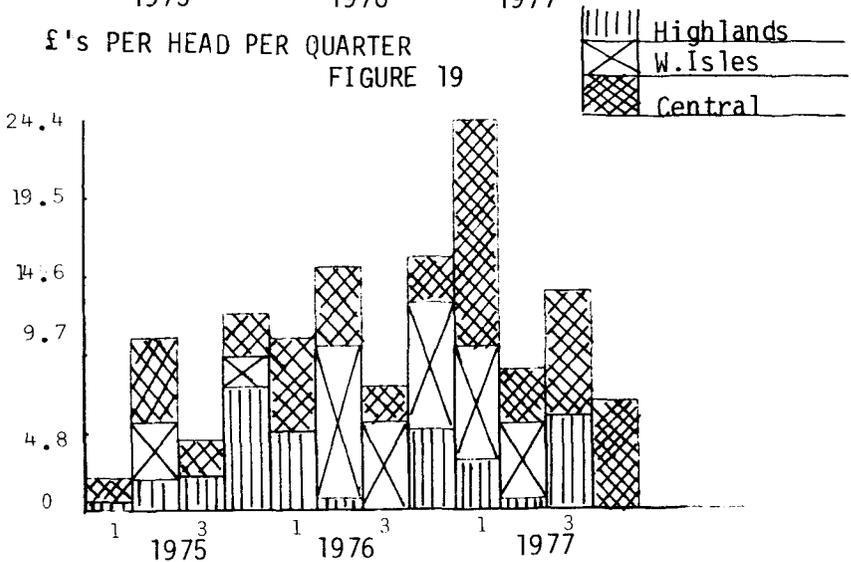
£'s PER HEAD PER QUARTER

FIGURE 18



£'s PER HEAD PER QUARTER

FIGURE 19



- (b) the regions which benefit most consistently from a high level of investment are Strathclyde and Central. In the main, this is due to the investment activities of a few firms, notably British Steel in the Motherwell area and BP and ICI around Grangemouth.
- (c) the level of manufacturing investment in Lothian region is consistently low. In Strathclyde, in any quarter, regional grant per head never falls below £2. In contrast the Lothian figure never reaches £2. The implication is that, in the future, Lothian will have to increasingly rely on services to provide its employment base.
- (d) in most regions, the monetary value of grants declined during the last two quarters of 1977 suggesting, as was mentioned in the section on indicators, a substantial fall in the real value of investment in Scotland during the latter part of 1977.

In this issue, we present forecasts for 1978 of movements in some key Scottish economic indicators. These have been generated by a small econometric model of the Scottish economy (see Note: Econometric Forecasting in Scotland, this issue) which has been constructed at the Fraser of Allander Institute. To a large extent these reinforce the pessimism which has pervaded the review of the Scottish economy in earlier sections. Manufacturing output, which was almost completely static during 1977, is expected to grow by only 1% during 1978. This growth, on past trends, should be insufficient to maintain the level of manufacturing employment and we would expect a fall of around 5,000 between 1977 and 1978. Service employment should continue to rise, increasing by perhaps 3,000 over the period. Unfortunately, a further rise in unemployment must be expected, given the predicted low level of activity. In March 1978 the level of unemployment was 191,000. After May we would expect another steady rise in unemployment possibly reaching 210,000 by August.

For 1978 as a whole, the average level of unemployment is likely to be close to 200,000. Scotland's real gross domestic product should rise by around 0.4% during 1978 assisted by the small increases in manufacturing output and service employment. Because of the slow growth in employment, excess demand is not expected to exert a strong upward influence on wages and we would expect male manufacturing wages to increase by marginally less than the National Institute's expected 13% growth for the UK as a whole.

Overall, the outlook is not encouraging although our forecasts suggest a rise in real disposable income, should price inflation remain in single figures through the remainder of 1978. The measures taken by the Chancellor should add some further stimulus to consumer demand in the latter half of 1978, but we cannot foresee this having any immediate marked effect on Scottish output. Unemployment remains the principal problem of the Scottish economy. Our forecast, that average unemployment in 1978 will be close to 200,000, suggests that no immediate improvement can be expected. The removal of REP has clearly had a detrimental effect on company finances and, consequently, on unemployment. Its reintroduction, as we have argued before, with a bias toward more skilled occupations would go some way toward retrieving ground lost during 1977. However, no hint of further measures to assist the development areas was made in the Budget speech.

One measure which might be considered by the authorities to promote a more equitable distribution of employment is to force up the price of overtime hours, as is done in the USA, by legislating on the multiple of the standard rate which must be paid for overtime hours.

If the authorities could force the rate of overtime payments up to, say, triple rather than double, the standard rate, some progress might be made toward reducing levels of overtime working and increasing employment.

SUMMARY

World and the United Kingdom

The outlook for output growth in the major industrial economies still remains unfavourable. The United States is the only significant exception to this general pattern, and even here balance of payments and inflation constraints may emerge as the year progresses.

The rate of growth of output in the UK is expected to be of the order of 2½% in 1978. The short-run outlook for inflation and employment appears reasonably favourable, but no significant decline in unemployment is foreseen. The longer term outlook is considerably more uncertain, with retail prices, wage policies and the balance of payments remaining major inponderables.

Scotland

There is still little indication of a recovery in the flagging fortunes of the Scottish economy. Stagnant output and falling investment give little hope of a recovery of activity and a reduction in unemployment during the remainder of 1978.

The Budget, which contained no special measures for the assisted areas, can hardly be expected to provide a strong stimulus to the Scottish economy.

Thus, we expect that, after rising to around 210,000 in July, unemployment in Scotland will level off at about 200,000 in October.