The fall in the seasonally adjusted index of industrial production for Scotland in the last quarter of 1977 was offset by a fairly substantial rise of 3.4% to 108.2 in the first quarter of 1978 (Figure 1). Only mining and quarrying among the major sectors showed any decline while construction and gas, electricity and water recorded their highest output levels for some time. Although manufacturing industries showed a smaller rise (2.1%) than that for all industries, notable increases within this sector were recorded by the food, drink and tobacco group and the engineering group, particularly shipbuilding, marine engineering and vehicles and electrical engineering. The overall index of industrial production (seasonally adjusted) for the UK rose by 1.1% to 103.5 in the first quarter of 1978, the increase being reflected in all major sectors. It would appear that the greater increase in output in Scotland compared to the UK in the first quarter of 1978 did not represent a relatively better performance of the economy since, in the preceding quarter Scotland's decline in output was greater than that for the UK. Rather, the general picture would appear to be one of wide Scottish output variations around a UK trend.

The CBI Industrial Trends Survey in Scotland for July 1978 reported no major changes in the

* Unless otherwise stated indices refer to the seasonally adjusted Index of Industrial Production for Scotland (1970=100).
SCOTTISH COMPANY FORMATIONS AND DISSOLUTIONS

Figure 3

AVERAGE HRS OVERTIME

Source: Registrar of Companies

Source: Department of Employment Gazette
level of activity since the slightly improved situation recorded in the April survey. The incidence of below capacity working has increased from 60% in April to 64% of firms in July. The corresponding figure for the UK decreased from 66% to 64% (Figure 2). A higher balance of +9% of firms reported an increased volume of output during the four month period up to July, compared with +5% in April. Small firms experienced the greatest improvement in output volume, while the balance of medium sized firms reporting increases declined. A balance of +12%, the same as for April, forecast increased output volume in the following four months. In the UK, +20% of firms reported increased output in the four months to July, and +17% expect increases in the following four months. There has been no change in the April figure of +6% in the balance of firms reporting an increased volume of new orders, but the balance expecting any increase in the following four month period has dropped from 15% in April to 6%.

In the third quarter of 1978, the average number of company formations fell quite sharply from the high figure recorded in the previous three months, to about the level of the first quarter, (Figure 3). At the same time the average number of dissolutions increased, though not quite to the level of the first quarter. Formations however remain well above, and the dissolutions below the corresponding 1977 levels.

In July, average weekly overtime hours per operative working overtime reached 9.50, the highest figure recorded since July 1977, (Figure 4). The corresponding figure for Great Britain was 8.80 hours, the highest since November 1977. This indicates that employers were meeting increased demand by increased overtime working. The total number of operatives working overtime has fallen slightly since April both in Scotland and Great Britain, but the total number of hours overtime worked has increased, because of the rise in the average number of hours being worked.

The Index of Industrial Production for investment goods rose by 4.7% in the first quarter of 1978 to 98.6 (seasonally adjusted index 1970=100). This increase was not however sufficient to offset the large fall recorded in the output of investment goods in the final quarter of 1977, and the level of activity in this sector has remained low. The corresponding UK index rose by 1.6% to 99.6 more than offsetting its fall of the preceding quarter.

Investment intentions for the next twelve months as reported in the July 1978 CBI Survey for Scotland are more optimistic, and suggest that the forecasts in the April Survey may have been unusually low. A
balance of +12% of firms expect to authorise more capital expenditure on plant and machinery in the next twelve months than they did in the past year, compared with -1% in April. A similar relative improvement can be observed for new buildings; only 1% expect to spend less on buildings compared with 14% in April. The corresponding balances for the UK as a whole recorded in July are +13% on plant and machinery and -15% on buildings, both representing falls from the April forecasts. Thus the latest figures put Scotland back into line with UK investment intentions re plant and machinery and ahead of the UK re buildings.

It is interesting to note that despite the reported increase in investment intentions the percentage of firms claiming adequate capacity to meet expected demand over the next twelve months has also increased by 1% to 75% in July. Presumably, therefore, firms are intending to replace capital to cut costs at present output levels, or are optimistic of increased demand in the future beyond the next twelve months.

Figure 5 shows that the value of Regional Development Grants (over £25,000) at constant (1970) prices dropped substantially in the second quarter of 1978 to £4.6 million, which accords with the pattern of the previous two years. The value of the grant for this quarter in current prices was £13.5 million compared with £25 million in the first quarter of 1978. Although this is the lowest second quarterly figure recorded, the value of the grant received at constant prices in the first half of 1978 was about £1 million higher than that for the first six months of 1977.
It would appear, therefore, that while actual investment so far recorded in 1978 is fairly weak, the outlook for the year ahead is much brighter. This view is also strongly supported by the Department of Industry's investment intentions survey (October 1978) which reports an expected increase in the volume of manufacturing investment in Great Britain of 9% between the first and second halves of 1978.

One must be careful to distinguish the production of consumer goods from actual consumption. In Scotland it is the case that a large number of consumer goods are produced but consumed elsewhere. Concomitantly many consumer goods are produced elsewhere but actually consumed in Scotland. For this reason the index of industrial production of consumer goods does not provide a very satisfactory proxy of consumption.

However, the index (seasonally adjusted 1970=100) showed an increase of 3.9% to 121.8 in the first quarter of 1978, reflected in both the durable and non-durable goods sectors. This is the highest level of output recorded since 1970, the base year for the series. For the UK production of consumer goods fell by 0.8% to 116.1.

The number of new cars registered is a useful indicator of the consumption of durable goods. In August 1978, the first month of a new registration mark, and thus traditionally a month of high car sales, the number of new registrations increased by 17.8% in Scotland and 20.2% in Great Britain as a whole, from the August 1977 figure. New registrations in Scotland for the period, June, July and August, 1978 accounted for 8.9% of the Great Britain total compared with 9.1% in 1977. Thus the number of new cars registered in Scotland as a proportion of the Great Britain total has fallen slightly in recent months from the level of a year ago.

As reported in a previous section there has been an increased level of demand as represented by the volume of retail sales index in the UK. There are no reasons to suppose that the volume of retail sales in Scotland diverges from the UK pattern.
Agricultural surpluses, particularly acute this year, are a recurring problem for the EEC Agricultural Commission. Pressures for reform of the CAP appear to be growing in other Community countries and the subject will be discussed at the next European summit in December.

The value of gross output of Scottish agriculture was £851 million in 1977. The volume of output also rose after falling back in 1976. The June 1978 Scottish Agricultural Census reports that employment fell by 3% over the previous year. The overall area under tillage remained static with barley and soft fruit acreage increasing by 4% and 6% respectively and potatoes for ware falling by 21%. The total numbers of cattle fell by 3%; sheep numbers rose by 1%; and pig numbers fell by 5%. However an imminent upturn in the pig herd is suggested by the 10% increase in gilts in pig.

Although a record harvest is expected south of the border, the Scottish harvest is likely to be similar, or slightly less, than last year. Prices for potatoes, in particular, are still weak. Beef prices usually firm in mid-October and sheep prices, are still rising steadily. Due to the shortage of slaughter stock, pigmeat prices rose during the spring in contrast to the falling European prices. The normal seasonal autumn increase is expected to keep prices moving upwards until the end of the year. An economic assessment by the North of Scotland College of Agriculture suggests that deer farming is unlikely to give an immediate return. Further information from the HIDB experiment at Rahoy is awaited. UK farmers have been assured by the EEC Agricultural Commissioner that limits on milk production will not be imposed. UK production continued to rise while liquid sales fell. Permission for an increase in price has been sought. Butter stocks are falling and retail prices climbing.

Britain has implemented an order extending the Norwegian pout box 20 eastwards and introducing other unilateral conservation measures, in spite of a last minute request by the EEC Commissioner for Agriculture not to proceed. The Danish government is pressing for the British government to be taken to the European Court although they have warned their trawlemens not to risk being caught in the newly restricted waters. It is not anticipated that a Fisheries Ministers meeting at the end of October will produce an agreed solution.
The exclusion of the Firth of Clyde from the unilateral ban on herring fishing has been criticised by the EEC Commission as giving an unfair advantage to Scottish fishermen. The West Coast processors have tried importing herring for curing but they face a bleak future and have already asked for government assistance. It was stated recently, at a scientific conference, that the ban on North Sea herring fishing has not, as yet, brought a recovery in stocks. Fears were also expressed about the future of mackerel and haddock. Restrictions on catches of mackerel and haddock have been introduced for British vessels during the summer. Mackerel fishing, in particular, has increased off the west coast.

Fish landings at Scottish ports for the first eight months were down from 270.8 thousand tonnes in 1977 to 255.3 thousand tonnes in 1978. The value rose however over the same period by £3.7 million to £81.9 million.

After a slight drop in July, North Sea oil production, from ten fields, averaged 1,103,931 barrels a day in August. Due mainly to further setbacks at the Ninian and Brent fields it is virtually certain that production for 1978 will fall short of the 55 to 65 million tonnes predicted for the year.

As mentioned in previous Commentaries the problem of utilising associated gases, if flaring is not allowed, will grow, and, in the longer term, could affect the rate of oil extraction. Final planning permission for a gas separation plant at Moss Morran has not been given and delays in setting up such a plant (wherever located) for gas liquids from St Fergus could affect Brent’s oil production in the early 1980’s. Gas compression units are being, or have been, installed at Brent’s four platforms to reinject the gas into the reservoirs. Dunlin has come on stream and is accumulating oil in its own storage cells until the first pipeline to Sullom Voe is completed, hopefully, by mid-October. Heather should be onstream soon and recent good results from the Argyll field, where water seepage threatened production, suggest that the field’s active life will continue into the 1980’s.

In spite of calls from BNOC for increased exploration activity in the North Sea, drilling has been at its lowest level for five years, giving substance to the view that the peak exploration period is over. Seventeen rigs were operating in the North Sea in August (with only five on exploration work) compared with twenty-five to thirty last year. It is considered that territories offered under the government’s latest 6th round licences will not increase activity significantly in
continue during 1979.  
Supplies increase through the second pipeline. The build-up will
be sufficient to meet a day with this will double over the next few months.

It is currently on the second phase of engineering operations. It is curtailed
of the output of gas from the fringe field is building up after completion

Fields.

expressed about the effect of these proposals on the more marginal
between 1978 and the mid 1980's. With the industry concern has been
before 1978 is applied during the first two years. It is estimated
a year or two, the amount of oil which can be recovered from any field
be claimed on certain capital and a bail-out to 500,000

January, a reduction from 75% to 35% on output allowances which can
The government's proposals all tax increases were announced in July.

Well gave good results.

The size of the difficult face field where the latest development
interest at present, the viability of the plan must depend on the
although there is little
offshore loading for their Maureen field. Although there is little
feasibility available for example, plan a system of

However, there is a disappointing response to a Department of Energy
sector to lay a sub-sea joint user platform to the Carmory field.

and any further development would appear
the Carmory field is still uncertain. Carmory Performance have

By overrunning pipe, stoppage facilities at Nig. Day. The outlook for
that sub-sea platform will come sooner at Shumburk to be joined.

department of energy and work is starting immediately. It is likely
development plan at Mess's Bearfield has been given by the

A decision on whether until next year, formal approval to the revised
project will be in the region of £300 million and that a steep gradient

An application to develop Phillips's Maureen field has been submitted

feasilities.

First well in the block. The British share of the high pressure
have made a larger find east of Shumburk after poor results from their
west of Shumburk although industry interest in the area is still high
are. Companies have until 20 November to decide whether they are

areas. The North Sea as very few blocks are situated in known productive
The final report from the Gas Gathering Pipeline group has concluded that the claim for a completely new collection system cannot be supported within the confines of currently known British North Sea discoveries. They recommend a limited network based on the Frigg and Brent lines.

A substantial increase in the output of food, drink and tobacco in the first quarter of 1978 caused the index of industrial production for this industry to rise from 115 to 121, the highest level ever attained by the index.

**FOOD, DRINK & TOBACCO**

In view of the closure of Spillers Scottish plants in April 1978 this rise seems surprising. However, retail sales of food in the UK have been buoyant throughout 1978, with the volume of sales in July exceeding those in the corresponding month of 1977 by 6.3%. Increased purchases of food, stimulated by sharp increases in consumers real disposable income as a result both of tax cuts and reductions in the rate of price inflation will have stimulated growth in the food, drink and tobacco industry. While, in the short term, there is little prospect of further tax cuts, there is also little likelihood of a sharp rise in inflation. Consequently, real incomes are likely to continue to increase, perhaps a little more slowly than during the first half of 1978. And, as a result, output in this sector should continue to expand to meet a rising pressure of demand.

Whisky production for the first six months of 1978 was 87.8 thousand proof gallons compared with 75.7 thousand proof gallons for the same period in 1977. It is expected that total production for the year will be at the 1972 level after the cutbacks in production during the mid-1970's. However, it is considered that the good barley crop last year has stimulated production and it is unlikely that next year's output will show such a significant rise.

A recent study by Wood Mackenzie on the prospects for Scotch in the United States reinforces the view that Scotch consumption will grow at a slower rate than in the late 1960's. They predict that, with the trend away from whisky to lighter spirits, Scotch will grow by 1-2% over the next 5 years with the current volume best sellers slipping back, but with premium brands growing by 5-6%.

The National Economic Development Office have been studying the whisky industry and will be producing a report later in November. The three

*Unless otherwise stated index of production figures refer to the seasonally adjusted index of production.
key issues certain to be discussed are trade barriers, the EEC investigation of dual pricing and the bulk whisky trade. Exports of whisky for the first six months were 49,336,000 proof gallons compared with 43,152,000 proof gallons for the same period last year. The trade is valued at £292.9 million. The greatest volume increase was for the controversial bulk malt exports. The Japanese account for nearly 60% of this trade but a small, significant increase in exports to Spain can be noted.

Responding to the increasing level of industrial activity output in the chemicals, coal and petroleum products industry increased from an index level of 130 to 134 between the final quarter of 1977 and the first quarter of 1978. Demand for motor spirit should expand to accommodate a sharp increase in the number of vehicles being registered. Increasing economic activity should also benefit the chemicals industry. However, decisions as to the investment strategy of various chemical firms considering expansion in Scotland are still uncertain. Esso have still to decide when (if at all) to commence work on the proposed ethylene cracker at Moss Morran in Fife. It is becoming increasingly clear that Western Europe has overcapacity in ethylene production and this is a major influence on the Esso decision. Roche Products are thought to be interested in investing £50 million in a plant to produce ascorbic acid in the Garnock valley, Ayrshire, but a final decision has yet to be announced.

Production of metals continued at very depressed levels during the first quarter of 1978, with output unchanged at 67% of 1970 levels. During the first six months of 1978 output of crude steel by the British Steel Scottish division was 18% less than the corresponding period of 1977. Therefore, the decline in the domestic steel industry is continuing. This continued depression can be partly explained by a 40% increase in steel imports from EEC countries to the UK between the first half of 1977 and the first half of 1978, in clear contravention of the Davignon agreement which set quotas on steel imports in EEC countries. The Victoria works at Coatbridge which employed 180 men is likely to be closed down early next year. Glengarnock steelworks, where redundancies have been expected for a long time, will have its workforce cut by 700 by Christmas. It is hoped that a rolling mill operation can be maintained at the works producing steel for the shipbuilding industry.
Production in the engineering industry increased by 4% between the fourth quarter of 1977 and the first quarter of 1978. In the UK as a whole output rose by only 2% to an index level of 101, the same as that in Scotland. An increasing trend in new orders is likely to ensure further expansion during 1978 and at least the initial part of 1979. Within engineering, however, growth has varied considerably. These shifts are indicative of the changing structure of Scottish engineering.

For instance, electrical engineering output grew by 12% to an index level of 170 in the first quarter of 1978, clearly establishing it as Scotland's major source of industrial growth. But even in this area performance is mixed, with the outlook for the Singer plant at Clydebank still very uncertain and with further redundancies possible at Hoover, Cambusland. Babcock and Wilcox, makers of boilers for electrical generation plants, after recent difficulties in obtaining work now are more hopeful of securing a settled orderbook and are planning a £70 million investment to rebuild their plant.

The electronics industry in Scotland continues to expand. Honeywell are to build a new range of mini-computers in Newhouse, Lanarkshire. Ferranti plan to open a factory employing 160 at Bellshill and it appears that expansion of the Motorola factory in East Kilbride will not be affected by the proposed merger between Thomson CSF, the French electronics group, and Motorola. Burroughs plan to set up a completely new plant in Livingston to manufacture electronic banking equipment.

Recent studies of world demand for ships suggest an even gloomier picture than that predicted a year ago. It is forecast that world output by 1980 will be only 13 million gross registered tons, which is one third the 1975 figure. There has been a dramatic drop in Japan's share of world trade from 50% in 1977 to 38% for the 1978 January to August period. The August figure shows an even greater decline. Some observers estimate that the cost of Japanese bids has risen by 40% over the summer and European shipyards are at present able to undercut the Japanese. The pricing policy might change when the Japanese shipbuilding re-organisation is concluded.

British Shipbuilders are actively seeking orders for their yards although there have been no significant successes for conventional ships over the summer period. Scot Lithgow's BP order for the first British built semi-submersible vessel has been confirmed. Work on the £60 million ship is expected to begin before the end of the year for delivery in the Spring of 1981. Work for the 3000 employees at the Lower Clyde yard is assured. Govan will also gain from the order
as some steel work is to be transferred to it. Scott Lithgow is to spend £3 million strengthening a concrete berth in anticipation of future orders. It is predicted that up to ten similar craft will be needed in the North Sea over the next five years.

Output in mechanical and instrument engineering fell by 4% in the first quarter of 1978, while in the UK output grew by 2%. Slow growth during the remainder of 1978 is expected, although the strength of the pound may be adversely affecting competitiveness.

As with many of the other sectors, output of textiles, leather and clothing fell in the first quarter of 1978, but since then some expansion can be expected to have taken place. In the UK as a whole output increased by 1.2% between the first and second quarters. This expansion was particularly concentrated in the clothing industry. Again, the expansion of real disposable incomes will have significantly increased domestic demand and expansion can be expected at least until next Spring. However, cheap imports are still proving a barrier to prolonged recovery in the industry.

Output of bricks, pottery, glass and cement fell in the first quarter of 1978 by 4% to an index figure of 100. Some revival in the construction industry has slightly stimulated demand for building and plumbing materials, but growth during the remainder of 1978 is only likely to be moderate. Construction of a new Caithness Glass factory near Perth has begun.

In the first quarter of 1978 output of timber and furniture fell by 5%. In the UK a similar decline occurred but since then some expansion has taken place. Again, slow expansion is the likely pattern in Scotland through 1978 and the early part of 1979. Chipboard manufacturers are still experiencing difficulty in an exceedingly competitive market.

After a long period of stagnation, the Scottish construction industry now appears to be slowly recovering. At an index level of 104 in the first quarter of 1978 output was higher than at any time since 1973. In the UK, output increased by 8% between the first and second quarters of 1978 and
and if one is not forthcoming the yard could close by the end of March.

The second period Jack-up rig at Marathon is nearing completion and

the future of the yard and a fish farm has been mentioned as one solution.

If 77 million crane collapsed and had to be written off.

The outlook for steel platform yards has improved during the summer.

be expected.

then some further expansion of industrial and commercial building can

years. If private investment is picking up (see leading indicators)

public sector into other occupation which has become apparent in recent

sector housing are still at historically low levels, just exceeding

construction firms in incentive to expand output from the

private sector. Recant rises in house prices will have given

the various categories of public construction.

A large part of the rise can be attributed to a substance of expansion

with construction contractors in Scotland during the quarter, with little

in Scotland, there was an increase in the value of new orders placed.

therefore more recent figures are likely to indicate further expansion

unless a plan is obtained before the end of the 90-day

Redundancy notices recently announced to 900 of the 1,200 workforce,

The options for Mandrines at Ardersier will be reassessed in

remain open and the construction of hydrocrackers, ultra-liquids and

build steel structures and possibly hydrocrackers. Hynrix and Forfared

would appear that steel will continue to be favoured for the next

of platform orders although there has been dissonance of hydrogen

expected.

1,200 workforce until early 1990. The recovery at Kessock de Groot

understood to be worth 1.20 million, which ensures employment for their

Higher platform contractors have been awarded the second Further contract.

4.4 million order for the covered fabrication area will be expanded. A 4.4 million order for

600, tendering for thirteen other contracts. Employment has risen to 600.

However, returns of Ardersier who are working on their Brazil

order, while tendering for other contracts, suffered a setback when a

37 million crane collapsed and had to be written off.

The outlook for steel platform yards has improved during the summer.

be expected.

then some further expansion of industrial and commercial building can

years. If private investment is picking up (see leading indicators)

public sector into other occupation which has become apparent in recent

sector housing are still at historically low levels, just exceeding

construction firms in incentive to expand output from the

private sector. Recant rises in house prices will have given

the various categories of public construction.

A large part of the rise can be attributed to a substance of expansion

with construction contractors in Scotland during the quarter, with little

in Scotland, there was an increase in the value of new orders placed.

therefore more recent figures are likely to indicate further expansion

unless a plan is obtained before the end of the 90-day

Redundancy notices recently announced to 900 of the 1,200 workforce,

The options for Mandrines at Ardersier will be reassessed in

remain open and the construction of hydrocrackers, ultra-liquids and

build steel structures and possibly hydrocrackers. Hynrix and Forfared

would appear that steel will continue to be favoured for the next

of platform orders although there has been dissonance of hydrogen

expected.

1,200 workforce until early 1990. The recovery at Kessock de Groot

understood to be worth 1.20 million, which ensures employment for their

Higher platform contractors have been awarded the second Further contract.

4.4 million order for the covered fabrication area will be expanded. A 4.4 million order for

600, tendering for thirteen other contracts. Employment has risen to 600.

However, returns of Ardersier who are working on their Brazil

order, while tendering for other contracts, suffered a setback when a

37 million crane collapsed and had to be written off.

The outlook for steel platform yards has improved during the summer.

be expected.

then some further expansion of industrial and commercial building can

years. If private investment is picking up (see leading indicators)

public sector into other occupation which has become apparent in recent

sector housing are still at historically low levels, just exceeding

construction firms in incentive to expand output from the

private sector. Recant rises in house prices will have given

the various categories of public construction.

A large part of the rise can be attributed to a substance of expansion

with construction contractors in Scotland during the quarter, with little

in Scotland, there was an increase in the value of new orders placed.

therefore more recent figures are likely to indicate further expansion

unless a plan is obtained before the end of the 90-day

Redundancy notices recently announced to 900 of the 1,200 workforce,

The options for Mandrines at Ardersier will be reassessed in

remain open and the construction of hydrocrackers, ultra-liquids and

build steel structures and possibly hydrocrackers. Hynrix and Forfared

would appear that steel will continue to be favoured for the next

of platform orders although there has been dissonance of hydrogen

expected.

1,200 workforce until early 1990. The recovery at Kessock de Groot

understood to be worth 1.20 million, which ensures employment for their
Employment and Unemployment

Provisional data for March 1978 (the latest available) show the number of employees in employment in Scotland to be 2,057,000, a decline of 12,000 from December 1977 but 6,000 higher than estimated employment in March 1977.

<table>
<thead>
<tr>
<th>Employees in Employment: Scotland and England &amp; Wales ('000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scotland</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>March 1977</td>
</tr>
<tr>
<td>December 1977</td>
</tr>
<tr>
<td>March 1978</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>England &amp; Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1977</td>
</tr>
<tr>
<td>December 1977</td>
</tr>
<tr>
<td>March 1978</td>
</tr>
</tbody>
</table>

Source: Department of Employment Gazette

Note: Data are provisional

The general pattern of employment change in Scotland is similar to that in the rest of Great Britain, the most significant characteristics of which are the continued decline in manufacturing employment and the absolute and relative increase in female employment. In Scotland, the percentage of females in employment is higher (42.2% against 40.9%) and the percentage of employees in manufacturing is lower (29.7% against 32.8%) than in the rest of Great Britain. Moreover, these trends - towards greater female employment, and lower manufacturing employment - seem stronger in Scotland.

Between March 1977 and March 1978 Scottish employment rose slightly more than for Great Britain as a whole (0.3% compared with 0.2%), and the Scottish share of total employment in Great Britain rose from 9.32% to 9.33%. Such changes are so small that it can merely be concluded that the Scottish share of total employment has remained constant.
TABLE 1  **Regional Analysis of Unemployment & Vacancies in the UK**  
September 1978

<table>
<thead>
<tr>
<th>Region</th>
<th>Unemployed(^1) ('000)</th>
<th>Unemployment rate %</th>
<th>Vacancies(^2) ('000)</th>
<th>Unemployment/Vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>South East</td>
<td>303.5</td>
<td>4.0</td>
<td>99.0</td>
<td>3.1</td>
</tr>
<tr>
<td>East Anglia</td>
<td>33.7</td>
<td>4.8</td>
<td>6.7</td>
<td>5.0</td>
</tr>
<tr>
<td>South West</td>
<td>100.4</td>
<td>6.2</td>
<td>12.9</td>
<td>7.8</td>
</tr>
<tr>
<td>West Midlands</td>
<td>120.6</td>
<td>5.2</td>
<td>13.2</td>
<td>9.1</td>
</tr>
<tr>
<td>East Midlands</td>
<td>75.2</td>
<td>4.8</td>
<td>13.9</td>
<td>5.4</td>
</tr>
<tr>
<td>Yorks &amp; Humber.</td>
<td>119.2</td>
<td>5.7</td>
<td>15.6</td>
<td>7.6</td>
</tr>
<tr>
<td>North West</td>
<td>199.8</td>
<td>7.1</td>
<td>16.8</td>
<td>11.9</td>
</tr>
<tr>
<td>North</td>
<td>111.4</td>
<td>8.2</td>
<td>10.1</td>
<td>11.0</td>
</tr>
<tr>
<td>Wales</td>
<td>85.1</td>
<td>7.9</td>
<td>8.4</td>
<td>10.1</td>
</tr>
<tr>
<td>N Ireland</td>
<td>61.4</td>
<td>11.2</td>
<td>1.4</td>
<td>43.9</td>
</tr>
<tr>
<td>Scotland</td>
<td>168.1</td>
<td>7.6</td>
<td>20.5</td>
<td>8.2</td>
</tr>
<tr>
<td>UK</td>
<td>1376.1</td>
<td>5.8</td>
<td>218.7</td>
<td>6.3</td>
</tr>
<tr>
<td>Great Britain</td>
<td>1316.7</td>
<td>5.6</td>
<td>217.3</td>
<td>6.1</td>
</tr>
</tbody>
</table>

\(^1\) Seasonally adjusted, excluding school-leavers and adult students  
\(^2\) Seasonally adjusted, excluding vacancies notified to careers offices
Following increases in July and August, the total registered unemployed in Scotland fell quite sharply in September, to 179,886, including 15,159 school-leavers. This represents an unemployment rate of 8.1%, compared with 8.4% in June 1978 and 8.5% in September 1977. Of the fall in unemployment between August and September, approximately 75% (9475) represents school-leavers, reflecting the efforts of the Manpower Services Commission to create job opportunities for young people.

Seasonally adjusted, unemployment in Scotland (excluding school-leavers) is estimated to have fallen marginally between August and September, from 168,200 to 168,100, representing an unemployment rate of 7.6%. The seasonally adjusted unemployment rates for Great Britain, and for each of the standard regions, are shown in Table 1. The Scottish unemployment rate is exceeded only by Northern Ireland, Wales and the North of England, and at 142.7 the Scotland/Great Britain unemployment relative (the Scottish unemployment rate as a percentage of the British unemployment rate) for the third quarter of 1978 is at its highest level since the last quarter of 1974. Scotland’s relative position looks less bad in terms of the Unemployment/Vacancies ratio, though comparative data for different areas have to be interpreted with considerable caution. Inefficient labour markets characterised by low levels of geographical or occupational mobility can be characterised by high levels of unemployment coexisting with what seem to be large numbers of vacancies. Low levels of mobility may be the explanation of the relatively high numbers of vacancies in Scotland and consequently the low value of the unemployment/vacancies ratio.

Within Scotland the fall in unemployment between August and September has been fairly uniform across the regions: compared with September 1977, rates of unemployment are lower in all regions except the Western Isles, evidence of the constant difficulty of establishing viable new employment in that region. The biggest relative improvements have occurred in the Shetlands, Orkney and Grampian, which can be attributed to the strengthening and deepening of the economies of these regions caused by oil-related activity. Despite the improvement in Strathclyde, that region still accounts for just over 59% of registered unemployment in Scotland.

Recent trends in employment and unemployment, combined with probable trends in output and new investment, suggest that while seasonally adjusted rates of unemployment in Scotland may improve further during the next year, unemployment will remain at high levels. There is indeed increasing public acceptance of high unemployment, though there is a tendency to attribute unemployment to “technological” factors rather than to national and international policies of
TABLE 2  
Regional Analysis of Unemployment & Vacancies in Scotland  
September 1978

<table>
<thead>
<tr>
<th>Region</th>
<th>Unemployment ('000)</th>
<th>Unemployment rate %</th>
<th>Vacancies ('000)</th>
<th>Unemployment/Vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highlands</td>
<td>6.1</td>
<td>8.2 (3.8)</td>
<td>1.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Shetland</td>
<td>0.2</td>
<td>2.9 (3.9)</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Orkney</td>
<td>0.3</td>
<td>4.5 (5.4)</td>
<td>0.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Western Isles</td>
<td>1.0</td>
<td>11.6 (11.1)</td>
<td>0.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Grampian</td>
<td>7.7</td>
<td>4.3 (4.4)</td>
<td>3.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Tayside</td>
<td>na*</td>
<td>na* (7.6)</td>
<td>1.6*</td>
<td>na*</td>
</tr>
<tr>
<td>Fife</td>
<td>na*</td>
<td>na* (8.3)</td>
<td>1.0</td>
<td>na*</td>
</tr>
<tr>
<td>Strathclyde</td>
<td>106.2</td>
<td>9.7 (14.5)</td>
<td>9.6</td>
<td>11.1</td>
</tr>
<tr>
<td>Lothian</td>
<td>21.8</td>
<td>6.4 (7.3)</td>
<td>4.2</td>
<td>5.5</td>
</tr>
<tr>
<td>Central</td>
<td>7.8</td>
<td>6.8 (7.2)</td>
<td>0.9</td>
<td>9.0</td>
</tr>
<tr>
<td>Dumfries &amp; Galloway</td>
<td>4.3</td>
<td>8.1 (8.3)</td>
<td>0.3</td>
<td>13.3</td>
</tr>
<tr>
<td>Borders</td>
<td>1.5</td>
<td>3.7 (4.2)</td>
<td>0.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Scotland</td>
<td>179.9</td>
<td>8.1 (8.7)</td>
<td>23.0</td>
<td>7.8</td>
</tr>
</tbody>
</table>

* Due to industrial action some data on unemployment and vacancies for areas within these regions are not available. The Scottish total includes estimates for these areas.

Figures in parenthesis are unemployment rates for September 1977.
Data in this table include school-leavers, but not adult students, and are not seasonally adjusted. Data on vacancies include vacancies notified at employment offices and careers offices, and therefore contain an element of double-counting.
economic management, presumably since the former are assumed to be less amenable to remedial action.

In previous issues we have suggested various measures, in addition to those already being utilised, which can alleviate unemployment. These have included the reduction or elimination of employers' national insurance contributions on extra employment, and raising the cost of overtime working to encourage the substitution of additional employment for overtime working. It is interesting to note that in France a special tax on overtime working has been introduced which makes it more expensive for employers to introduce overtime and imposes an additional 33% tax on the overtime earnings of workers. France, along with a number of other countries, including the US, controls the rate at which overtime is paid. No such control is exercised in the UK and, paradoxically, recent measures in Britain, notably the abolition of regional employment premium and the raising of employers' national insurance contributions, have operated to increase the employers' propensity to substitute overtime for employment.

VACANCIES IN SCOTLAND 1954-78

Figure 9

Source: Department of Employment
OUTLOOK AND APPRAISAL

The Scottish economy is at present enjoying a revival of economic activity. Relative to the last three years, industrial output and manufacturing investment are growing rapidly. This is largely a response to increased consumer spending which has resulted from a reversal of the declines in real disposable income which occurred during 1976 and 1977.

The balance of payments constraint (see UK section) which has invariably arrested expansion in previous cycles is less effective currently because of the beneficial import substitution effects of North Sea oil production. The immediate benefits of oil production have thus been taken in the form of increased consumption which, in turn, has lifted the level of investment. In the future, further benefits from oil will accrue in the form of increased government revenue as the yield on petroleum revenue tax increases. In this case government will be able to determine whether the benefits from oil should be taken in the form of increased consumption, increased investment, increased government expenditure or perhaps a reduction in foreign borrowings.

Before any decision on the way in which the revenues ought to be spent must come a decision as to what objectives any such spending is intended to fulfill. No detailed statement of objectives has yet emerged. Clearly the objective of promoting the maximal rate of national economic growth is attractive since it would have the beneficial effects of increasing employment above what it would otherwise be and of raising the level of real incomes. However, rapid national growth might not be equally distributed amongst the regions. Different strategies of expenditure of the North Sea revenues will have different spatial implications.

In the Scottish context this is obviously a sensitive issue because there is a strong argument that Scotland should enjoy at least as large a benefit from North Sea revenues as any other region. If the oil revenues are used in the same way as the benefits from oil production are being used in the current revival, i.e. simply to increase consumption, then such an outcome cannot be guaranteed. To ensure balanced regional growth the authorities will have to control the spatial impact of the oil revenues. As yet no indication of how this control might be exercised has been given. As indicated in previous Commentaries, the case for additional consumption may win by default unless some clear recommendations are made and subjected to public scrutiny.
The balance of payments constraint mentioned earlier may, of course, become operative once more if consumption expenditure, as well as stimulating domestic industry, leads to an unacceptable increase in imports. At the current exchange rate import penetration will be increased and export competitiveness decreased if large wage settlements are granted in the coming pay round. If the exchange rate is allowed to float down then higher inflation will arise from increases in the cost of imported goods. Perhaps union leaders expect some substantial increase in price inflation in the near future. If not, then there is little rationale in bargaining for large pay increases when real growth in the economy is only around 3%. Unfortunately, their expectations are likely to be self-fulfilling. Further, large pay increases, after temporarily boosting consumption, will simply cause a redistribution of income - some will increase their real incomes, others will lose their income completely as they become unemployed. (See the UK section). Just as in the UK as a whole, wage settlements in Scotland above that warranted by real increases in production will inevitably lead to even higher levels of unemployment.

Given the more encouraging indicators, we now take a more optimistic view of the development of the Scottish economy in the short-term. The London Business School recently forecast that, at 1970 prices, UK GDP would grow by 2.4% during 1978. The Fraser of Allander Institute econometric model of the Scottish economy currently is forecasting 2.6% growth in Scottish GDP during 1978, again at 1970 prices. The Scottish forecast is based on the assumption of a 5.5% growth in UK manufacturing output during 1978 - this is a slightly more optimistic view than that taken by the London Business School, but is not inconsistent with recently published statistics.

As a consequence of this upturn in economic activity, the seasonally adjusted level of unemployment should continue to drift downward slowly, dropping to around 160,000 in March 1979. There are two provisos on this forecast however; firstly, any rapid expansion in labour supply will tend to push the level of unemployment up. Certainly, demographic forecasts suggest that the supply of labour should be increasing. But, as indicated in our last Commentary, part of the reason for the recent fall in unemployment may have been an unexpected decline in labour supply. Recent figures suggest that such a decline did occur in the first quarter of 1978, but part of this fall is due to normal seasonal variation. In the light of the demographic evidence, further reductions are unlikely and, indeed, a sudden expansion which would substantially increase the unemployment figures remains a possibility. Secondly, as indicated above, a sudden increase in the rate of inflation will be detrimental to employment opportunities, particularly if the UK enters agreements whereby sterling cannot freely be devalued. Increasing inflation will not have an immediately detrimental effect on unemployment. However, an increase in wage inflation now is likely to contribute to a rise in unemployment towards the middle of 1979.
SUMMARY

World and the United Kingdom

The world economy continues to characterised by high unemployment, low growth and currency instability. No significant improvement can be expected in the near future.

In the UK, output and real wages have been growing rapidly and an increase in investment is likely. However, with no firm pattern of wage settlements yet established, the prospects for inflation and unemployment are uncertain beyond the beginning of 1979.

Scotland

As in the UK as a whole, the Scottish economy is currently growing much more rapidly than at any time since 1973. However, as yet, the expansion has not made a significant impact on the level of unemployment, though some small decline, to a seasonally adjusted level of 160,000 can be expected by March 1979. Thereafter, as with the rest of the UK, the outlook is less predictable because of uncertainties over levels of wage and price inflation.