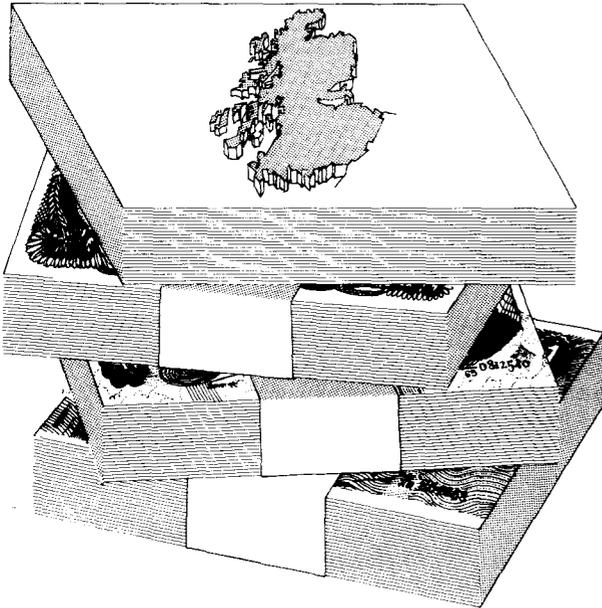


The Scottish Economy



PRODUCTION

The Scottish index of industrial production has now been revised to base 1975 = 100, following a similar revision to the UK index. The index for all industries (excluding oil) reveals the very poor performance of the Scottish economy during 1978. Between the first and fourth quarters of 1978, this index fell from 100.7* to 99.5, (see Figure 3). Thus, Scottish production in the final quarter of 1978, a year in which the UK economy was thought to have staged some sort of recovery, was actually less than average quarterly production in 1975. In the UK, industrial production (excluding oil) rose from an index level of 102.2 to 103.4 between the first and fourth quarters of 1978 - a considerably better performance than that in Scotland.

For Scotland, the manufacturing index rose from 99.2 in the first quarter of 1978 to 100.8 in the final quarter, while that for the UK rose from 102.3 to 102.6. Both indexes reflect the continuing stagnation in manufacturing performance, despite a rise of around 6% in new consumers' expenditure between 1977 and 1978. Though derisory in international terms, the performance of total UK manufacturing output between 1975 and 1978 is substantially better than Scottish manufacturing output, which is barely above its 1975 level.

The outlook for manufacturing industry as reflected in the CBI Industrial Trends Survey for Scotland in April shows marked improvement over that reported in January (which may have been affected by the haulage dispute and other industrial troubles) and October 1978, despite increased pressures on unit costs and prices. At 56%, the proportion of firms operating below capacity remains approximately constant compared with January (see Figure 4), but a substantially greater number of firms are optimistic about the general business situation and about export prospects, though the sharp increase in the sterling exchange rate which has occurred since the Survey must affect export prospects. (On the other hand, if foreign buyers expect sterling to rise further, they may advance orders).

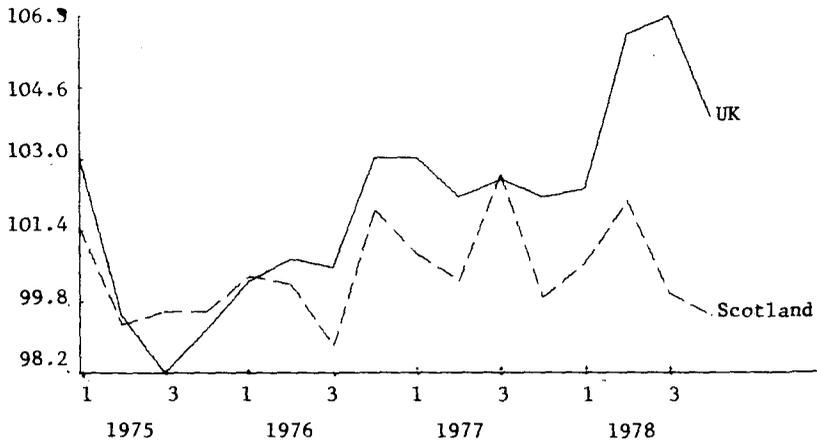
INVESTMENT

Investment intentions as reported in the CBI Survey show a modest improvement over those reported in October and January, but a net balance of 3% of respondents report a fall in numbers employed in the four months prior to the survey. However, a corresponding net

*Unless otherwise stated, figures are seasonally adjusted.

INDEX OF INDUSTRIAL PRODUCTION

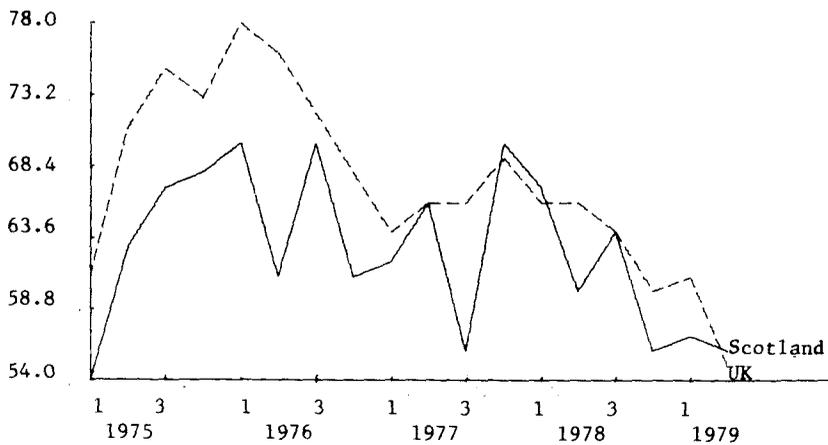
Figure 3



Source: S E P D

EXCESS CAPACITY, CBI SURVEY

Figure 4



Source: C B I Industrial Trends Survey

balance of 3% of respondents expect to increase numbers employed during the four months following April, though this is unlikely to have a noticeable impact on numbers employed or out of work. Compared with the CBI April Survey for the whole of the UK, the most noticeable feature of the Scottish Survey is the markedly greater optimism regarding export prospects (in Scotland, a net balance of +27% are more optimistic about export prospects, compared with a net balance of -7% for the UK) and employment prospects (in the UK, a net balance of 6% expect numbers to fall).

At 724, the number of new company formations in the first quarter of 1979 was a record level for that period (see Figure 5), while at 97 the number of dissolutions was the lowest for any quarter for over ten years. More detailed analysis of past trends is required before this can be interpreted as a significant leading indicator, but the direction of trends in this respect is encouraging.

Advances to UK residents by the Scottish Clearing Banks as at mid-May 1979 show an increase of 4.5% over the previous quarter and 14.2% over the previous year. For manufacturing industry, the figures are 5.2% and 13.1% respectively, compared with 5.5% and 17.4% respectively for the personal sector. Allowing for the rate of inflation, this represents little change in the real level of bank advances to the manufacturing sector, while advances to the personal sector have increased at a faster rate in line with the higher level of consumer spending, in particular on housing and durables.

In Scotland, the percentage of operatives working on overtime fell from an average of 34.2% in the first quarter of 1978 to 31.9% in the first quarter of 1979, while the average number of hours worked per operative fell from 8.9 to 8.7 hours. (See Figure 6). Comparable figures for Great Britain show a fall from 34.8 to 34.2 in the percentage of operatives on overtime, and 8.6 to 8.5 in average overtime hours worked. These data are undoubtedly affected by the road haulage and tanker drivers disputes, as well as by the worse weather in 1979, and are consistent with the relatively stagnant level of industrial activity reflected in the index of industrial production and the January CBI Survey.

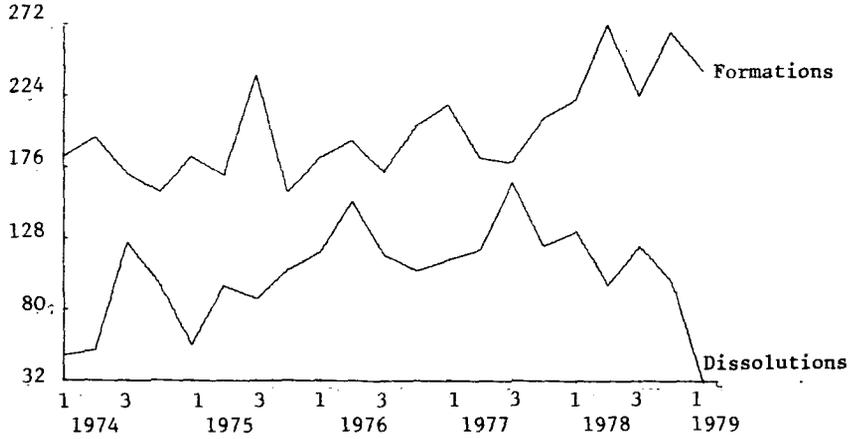
Data on new construction orders in the first quarter of 1979 are not fully available due to an industrial dispute, but partial and provisional data indicate a small increase in the total value of new orders received between the first quarter of 1979, the most buoyant sector being new housing, in turn a reflection of the rapid rise in real disposable incomes during 1978. The current hardening of interest rates, however, along with reductions in public expenditure, may quickly reduce the upwards trend in new construction orders.

A composite view of these indicators of economic activity reveal the following features:-

- despite the rapid rise in real consumers' expenditure during the past year, manufacturing output remains sluggish, a clear indication of the so-called "supply side" problem; i.e. the inability of producers to respond to clear increases in the pressure of demand from consumers.
- Scottish manufacturing output continues to perform poorly relative to the UK, which in turn performs poorly relative to other developed countries, a result which reinforces the view of Scotland's vulnerability as a marginal producer with respect to the business cycle.
- current trends as expressed in the CBI Survey and company formations indicate a relatively more optimistic outlook over the next 3-6 months. While encouraging, this is largely based on export prospects, which may be jeopardised by the substantial rise in the sterling exchange rate.

SCOTTISH COMPANY FORMATION AND DISSOLUTION

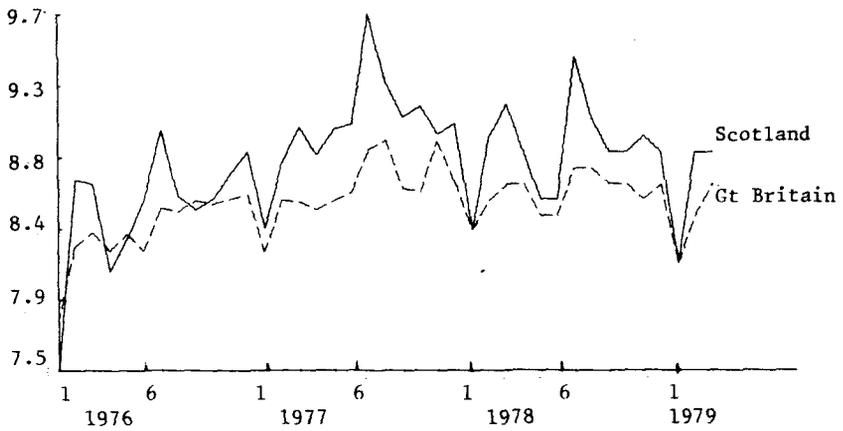
Figure 5



Source: Registrar of Companies

AVERAGE HRS OVERTIME

Figure 6



Source: Department of Employment Gazette

INDUSTRIAL PERFORMANCE

The Scottish Economic Planning Department have recently revised the Scottish index of industrial production, rebasing it from 1970 to 1975. The effect of this rebasing is to give greater weight to those commodities whose prices rose relatively fast over the period 1970 to 1975, e.g. oil. Commodities whose price changes less quickly are accorded less weight in the 1975 based index. Consideration of the behaviour of the new index forms an important component of the review of industrial performance which now follows.

AGRICULTURE At the farm price review in June, EEC agricultural ministers agreed to a 1.5% price increase for all prices excluding milk. This increase was contrary to the Commission's own proposals previously supported by John Silkin for a farm price freeze. The change in the British position by the new government was in return for acceptance of a further 5% devaluation of the green pound and the introduction of a butter subsidy in the United Kingdom.

Although a milk price freeze was agreed, the Commission's plans to reduce chronic surpluses were rejected. In Scotland milk production in April 1979 was lower than in April 1978 in contrast to the still rising European production.

A report by the Scottish Department of Agriculture shows that overall output in 1978 fell 3% to £802 million in value. Amongst gains, barley output increased but there were reductions in both oats and wheat. The value of livestock and livestock products rose from £521 million to £574 million. However, pig herds fell substantially and without new investment and a reduction of imports there can be little hope of reducing the downward spiral. Lawsons of Dyce is to cease pig processing and curing in November - so reducing outlets for Scottish pigs by 40%. There has been a warning that unless profits increase FMC at Stirling could also close. Cattle numbers also fell in 1978 but the market is firm and prices are expected to continue at a high level for 1979-80. The late spring has affected the supply of sheep and Scottish lamb prices were higher in April than English or Welsh prices. Closure of the French market to British sheep farmers is unlikely to continue, since the European Court will probably take the view that this ban is an illegal barrier to free competition.

FISHING The new government is adopting a cautious approach to the two year old problem of agreeing a Common Fisheries Policy with other EEC members. Their attitude during the election campaign appeared to harden against compromising on the position followed by the previous government. An example of the government's resolve to take unilateral action on conservation measures can be found in their ratification of the proposal to raise the mesh size requirements in all UK waters on 1 July - in spite of opposition from other European countries and legal action in the European Court.

Statistics of landings in Scotland during 1979 are not available. However there have been reports of hardship in a number of communities dependent on fishing. In Shetland, for example, landings in 1978 were 20% down. The fish drying factory in Lewis, jointly financed by the Highlands & Islands Development Board and a Norwegian firm, opened in June.

It is understood that the herring ban may be partially lifted in 1980 with small quotas, strictly imposed. There is considerable overfishing of mackerel off Cornwall and in the Minch, and unless an agreement on quotas and their enforcement is reached soon they may be fished out in five years.

A North of Scotland College of Agriculture report on fish farming showed that trout farming would not offer attractive returns on capital unless boosted by higher prices. Output of farmed fish has trebled over the last four years but they still account for less than 1% of total fish supplies.

OIL & GAS

North Sea oil production from the twelve fields on stream rose to 1.6 million barrels a day in May. The recent acceleration in output is mainly due to the start up of production from Ninian's central platform slightly ahead of schedule. Drilling activity in the North Sea is still at a low level although there has been a recent burst of activity in the Norwegian sector and there is, currently, a world wide shortage of rigs. Phillips have had favourable reports from their latest well north of their Toni and Thelma fields. The discovery is to be named Tiffany and further appraisal wells will be needed before an estimate of possible reserves can be made.

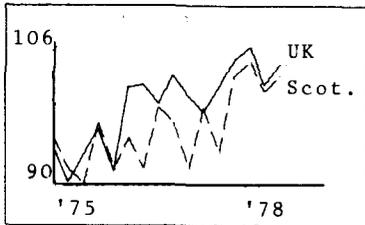
Contracts have been placed for platforms for the Maureen and North Cormorant fields and Amoco have submitted a £400 million development plan for North West Hutton for Department of Energy approval. Marathon are still working on their plan for the southern portion of the Brae field where development involves £1.1 billion expenditure. BP's chairman recently stated that capital expenditure in the North Sea would have to be maintained at £2 billion a year during the 1980's if self-sufficiency was to be extended over the decade.

Within the context of OPEC price rises and the current world oil shortage the new government has been considering its North Sea policies. It is expected that they will bring a change of emphasis in North Sea development, although the ratification of measures followed by the previous government suggests that the changes will not be as substantial as anticipated. Licences were allocated in a series of blocks by the previous administration and, while confirmation of the 6th round allocations will occur later this year, a new form of licensing agreement may subsequently be introduced with the intention of boosting drilling activity. At present talks are taking place on the steps to be taken to develop some of the smaller, more marginal fields. The Labour government's proposal to raise the Petroleum Revenue Tax from 45% to 60% is to be implemented, although a consideration of the expenditure to be set against PRT is to be made. They are also, like the previous government, considering the adjustments to be applied to marginal fields. The British National Oil Corporation is to pay PRT on its future operations. A review of the BNOC will be completed by the end of July. The existence of the Corporation is not thought to be in jeopardy although, as part of the move away from public to private investment, it is anticipated that BNOC's right to a 51% stake in every licence may be withdrawn.

Nearly half of the oil produced in the North Sea is exported. In response to the additional pressure brought about by supply problems BNOC has asked companies to reduce the volume of oil exported on a voluntary basis without breaking contractual arrangements.

The soaring oil price has been a factor in reviving plans to build a more ambitious gas gathering pipeline. After rejecting the proposal earlier in the year, another feasibility study is to be set up by British Gas and Mobil Oil to report to the Department of Energy by the middle of next year. It is considered that the project could be viable even without gas from the Norwegian Statfjord field. There is intense competition from France and Germany to assist in financing a separate Norwegian gas gathering scheme with a European landfall.

FOOD, DRINK & TOBACCO *



During 1978 output in the food, drink and tobacco industry grew by 4% in Scotland while in the UK as a whole there was only a 2% expansion. The faster growth in Scotland probably reflects the strong expansion of the whisky industry during 1978 which derived from strong domestic demand and buoyant export markets. Recent tax increases, a slackening of consumers demand and the current strength of sterling are all likely to reduce the rate of expansion in whisky during 1979. UK figures for the first quarter of 1979 indicate a drop of 1% in food, drink and tobacco production over the same quarter in 1978.

However, the April 1979 CBI trends survey in Scotland gives a more encouraging view of the industry, with a balance of 16% of firms expecting to increase output over the next four months. Given the current strength of sterling, the net 22% of firms who expect to increase exports may, in retrospect, be seen to be somewhat optimistic, probably because the continued growth in the value of the pound was not anticipated.

The Scottish Input-Output study revealed the food processing sector to be heavily 'linked' to the rest of the economy. That is, many jobs in other sectors, e.g. farming, distribution, are dependent on the success of this industry. If the Lawsons of Dyce closure is confirmed the implication is that this will cause loss of income and/or employment for many other workers than the 600 employees of the company who will be immediately affected by redundancies.

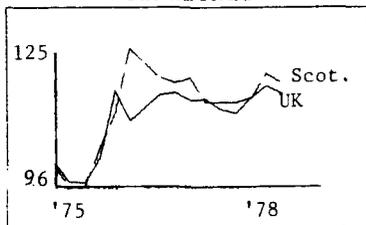
WHISKY

Industrial disputes during the early part of 1979 affected production of whisky. As a result of the haulage strike, output in the first quarter fell to 39,411,000 proof gallons from 42,670,000 proof gallons in 1978.

January figures are the latest available for exports. Whisky sales in the United States, as recorded by duty payments paid during the first quarter of 1979, fell by 17% as compared with the same period in 1978. However, sales in 1978 were exceptionally heavy as there was considerable 'buying-in' in anticipation of price rises.

A recent survey which assumes that consumption will continue to rise by 5% per annum, suggests that the industry will have to produce to full capacity at present unless it is to face shortages in the mid 1980's. The TGWU annual conference recently endorsed a ban on the export of bulk malt whisky to countries such as Japan, who use these to make their own blended whisky and compete against Scottish blends. Whether this decision will lead to direct action being taken in the docks remains to be seen.

CHEMICALS



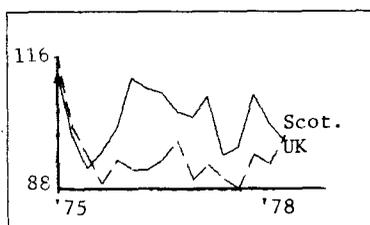
Production of chemicals, coal and petroleum products increased by 1% during 1978, the same rate of growth as that in the UK. A sharp fall in UK production in the first quarter of 1979 resulted from the unusual industrial problems which occurred at that time. Scotland did not escape these difficulties and a similar fall is likely to be apparent in the Scottish figures for the same period. By April, however, a more optimistic view of prospects for the industry was emerging. In response to the CBI questionnaire a

*Inset graphs show index of industrial production for Scotland (--- line) and UK (— line) in the relevant industry over the period 1st qtr.1975-3rd qtr.1978.

balance of 28% of firms in Scotland said that they expected to increase output over the next four months, with a balance of 11% expecting to take on more labour. It is difficult to see this optimism being maintained. Between January and April, prices of goods for home sale were growing at an annual rate of 17.2%. Further upward pressure on prices will result from the latest OPEC price rise. In foreign markets, the strength of sterling will push up prices at an even faster rate and/or reduce exporters profit margins.

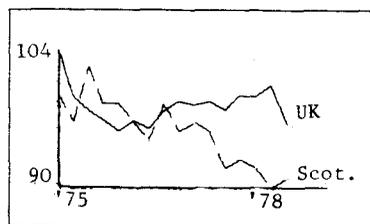
Lack of profitability was the main reason for the closure of the Monsanto nylon plant in Dundonald, Ayrshire with the loss of 880 jobs. The firm had an insufficient share of the market to realise the economies of scale which would have made a larger plant viable. A decision on the Moss-Morran project is expected soon, though the oil companies will be carefully considering how the oil price rises will affect the profitability of such projects. Recent high demand for naphtha has made the processing of North Sea gases look considerably more attractive.

METAL MANUFACTURE



The 2% rise in the production of metals in Scotland during 1978 coincided with a 1% fall in production in the UK as a whole. This difference can partly be explained by rising production from Ravenscraig, now one of Europe's most modern steel plants. The British Steel Corporation, having invested heavily in its Scottish division, is now hoping for a return to profitability, although the figures for 1978 were still disappointing with a loss of £80 million being recorded. BSC, whose investment programme in Scotland benefitted substantially from regional development grant assistance, is now reducing its capital expenditure programme. During 1978, UK investment in iron and steel was below 1976 levels.

ENGINEERING



The rebased index of industrial production shows that the output of engineering and allied industries in Scotland has fallen continuously since 1975 and by 9% in total between 1975 and 1978. Although UK output has also declined over the same period, the fall, at 1%, is much less significant. If Scottish industry were successfully diversifying into other activities, the decline in the importance of engineering might not be disturbing. However, no such diversification is apparent. Therefore the decline in engineering, which is the most important sector in terms of size of output amongst Scottish manufacturing industries, must be viewed with considerable misgiving.

Some hope for recovery came from the April 1979 CBI survey, to which a balance of 3% of respondents in engineering replied that they expected to increase output over the next 4 months, 14% having experienced increases in the four months to April. Again, however, the strength of sterling suggests that many of the net 48% of respondents who expected to increase export orders over the period April to July months will have been disappointed.

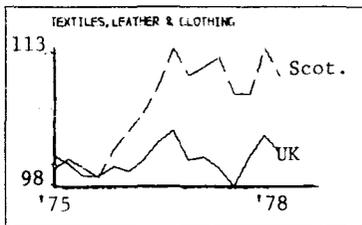
A more detailed analysis reveals the differing performance of the various components of the engineering industry. Again, the picture is depressing, with mechanical and instrument engineering, shipbuilding and vehicles, and other metal goods each suffering reductions of at least 15% in production over the period 1975-1978. The only redeeming feature is the strong performance of electrical engineering whose production grew by 27% between 1975 and 1978. In the UK, performance in each of these industries was less extreme than that in Scotland; mechanical engineering, shipbuilding and other metal goods contracting less

quickly but electrical engineering growing by only 8%.

Symptomatic of the decline in mechanical engineering were the recent announcements by Weir Pacific Valves, Forrest Randall and Anderson Strathclyde of 250 impending job losses. Although attempts are still being made to save 1100 jobs at the Massey-Ferguson plant, Kilmarnock, the chances of success are slim. There is also little hope of saving the 900 jobs of 900 workers at the Prestcold factory, Hillington.

The contrast with electrical engineering is marked, though there have been some recent problems. The closure of the Pye factory at Livingston means the loss of 475 jobs and short-time working has been introduced at the Sunbeam Electric plant at East Kilbride because of lack of demand. However, IBM have announced a £20 million expansion at their Greenock factory, where they have taken on 540 employees over the last two years. Erskine Weatayr, who are major sub-contractors to IBM, Greenock, could provide an additional 150 jobs at their Irvine plant. Hewlett Packard expect to expand their South Queensferry plant substantially over the next few years and the future of NCR now looks more secure following the successful development of a new self-service financial terminal at Dundee.

TEXTILES, LEATHER & CLOTHING



Even with the rapid rise in consumers' real incomes during 1978, this was not a successful year for the textiles, leather and clothing industry, output falling by 2% during the year. This was due to poor performance in the first half of the year, production rising by some 3½% in the latter half. A similar fluctuation in output occurred in the UK, though the overall decline for the year was just 1%. A steady reduction in investment in this sector since 1974 suggests that it is not ideally prepared to meet external competition, both in domestic and in overseas markets. The April 1979 CBI survey revealed only moderate prospects for 1979. Output falls were recorded by a net of 1% of

firms in the four months to April, but a balance of 19% expected an increase in output over the next four months. In the UK as a whole, performance and prospects seemed better than in Scotland, with a net 9% of firms increasing output in the four months to April and a balance of 31% expecting output rises in the following four months. Both in Scotland and in the UK, a balance of firms expected to increase capital expenditure on plant and machinery. This may go some way to reverse the downward trend in investment in this industry already referred to.

Divergent performance within the industry is indicated by the recent announcement of the closure of the Templeton carpet plant in Hamilton with the loss of 200 jobs and by the continuing success of the Borders knitwear industry. Dawson International, the largest knitwear company in the Borders, recently won the Queen's Award for exports and is experiencing strong demand for its products.

BRICKS, POTTERY GLASS & CEMENT

A 3% increase in output of bricks, pottery, glass and cement during 1978 lifted production in this industry to 98% of 1975 levels. As with textiles, the performance in the second half of 1978 was considerably better than the first half. Prices in the bricks and cement industries are now rising at an annual rate above 15% which will undoubtedly have an adverse effect on new

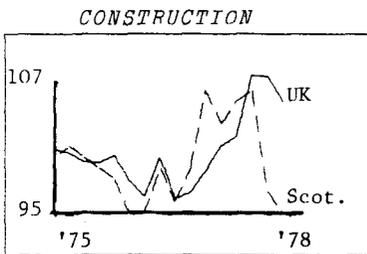
construction activity.

Work has begun on the new SDA-backed Caithness Glass factory of Inveralmond, near Perth.

TIMBER, FURNITURE

Production in this industry during 1978 was only 99% of 1975 levels but was 2% above that of 1977. In the UK, growth during 1978 was 4%, but output fell by 4.2% in the first quarter of 1979, with particularly low deliveries in January as a result of the transportation problems at that time.

J Dykes (Holdings) who manufacture furniture expect to make 100 of their 300 employees redundant shortly. This Glasgow based firm attributed some of their problems to the winter difficulties.



Construction output in Scotland during 1978 remained static at its 1977 level, 1% above that of 1975. In contrast to many other industries, construction output tailed off in the latter part of 1978, falling by 10% between the first and last quarters. In the UK, output was much more buoyant, the industry recording an 8% output increase over 1977 and showing no sign of tailing off toward the end of the year.

In Scotland, the number of private house completions during 1978 attained a record level of 14,443, but at 11,355 the number of public sector completions reached record low levels. As indicated in previous commentaries, the distribution of housing in Scotland is now moving toward the British norm, albeit slowly, with a greater emphasis on the private sector.

Although the preliminary data which is available (see leading indicators) suggests a small increase in new orders for construction in the first quarter of 1979, probably as a result of continued buoyance in private housebuilding, prospects for the remainder of the year are gloomy. Cuts in public spending will inevitably have an adverse effect on construction in the public sector and the number of new houses built by local authorities may reach even lower levels. Further, high interest rates are likely to dissuade commercial concerns from expansion.

The platform orders for the North Cormorant and Maureen fields are the first contracts to be placed with British yards since last summer. Shell/Esso have ordered a £30 million production jacket from Redpath de Groot Caledonian at Methil in conjunction with UIE at Cherbourg. Phillips have placed a contract for a new type of Italian designed structure with Howard Doris and a new consortium headed by Weirs and Chicago Bridge at Hunterston. This is the first contract undertaken at Hunterston since its designation as a site five years ago. Although it should alleviate unemployment in South Ayrshire, its opening has strategic implications for other existing yards and must have an adverse effect on their future prospects. An order for the Magnus field is now expected in October with contracts for North West Hutton and Brae following during the next eighteen months.

Demand for steel platforms, before the current spurt, has been uneven but there have been no orders for concrete platforms for over four years and Howard Doris and now Hunterston have diversified into constructing steel structures, leaving McAlpines and the Portavadie yard with few prospects. Competition has intensified amongst the steel yards. McDermott's at Ardersier have no major new order on their books and have made 400 of their 2000 workforce redundant. At Nigg, Highland Fabricators are working on Shell's Fulmar jacket for completion in April 1980. Although they are well placed to win the BP Magnus contract in October nearly 1200 are due to be made redundant by the end of August before the order is placed.

Howard Doris/NAPM at Loch Kishorn, at present operating on a care and maintenance basis, will increase their workforce to 1000 to fulfill the Maureen order and will be investing a further £1-2 million to expand facilities.

SHIPBUILDING

World shipbuilding orders in the first quarter of 1979 were at their lowest level for fourteen years. The British share of tonnage on order slipped back to 1.138 million tons at the end of March 1979 from 1.942 million tons in March 1978. The new government is faced with the problem of the industry's survival until the expected upturn in demand in 1981. It is reviewing the British Shipbuilders' corporate plan, submitted to the previous government earlier in the year, and intends to publish a policy statement by the end of July. A pre-election commitment to denationalise parts of the industry is unlikely to be included in the document. Broadly the government favours further contraction of the industry while recognising that support should not be withdrawn too rapidly. The decision on which yards to retain cannot be delayed as otherwise it will be made on an arbitrary basis when individual yards run out of work. The government considered that the £30 million subsidy required to build a semi-submersible vessel in Britain was too high to be justified, although it stressed this would not prejudice consideration of future requests.

British Shipbuilders' plan favours retaining major shipbuilding centres - in Scotland this would include the Govan yard, Yarrow and parts of Scott Lithgow. Govan is finishing its thirteen ship Polish order and with no further orders could be a further test of the new government's policies. After massive investment programmes the workforce now follows a flexible working arrangement and has one of the best productivity records of any British yard. Yarrow has orders on hand, worth £300 million, to occupy their 5,600 workforce until 1983. They recently secured an order for the fifth and sixth ships in a series for the Royal Navy. Scott Lithgow obtained a £40 million order for a deep sea operational vessel for the navy. They are working on a support vessel for BP, but as their loss of a semi-submersible order for Shell Esso showed, future participation in orders for the North Sea may increasingly depend on guaranteed competitive delivery schedules and the amount of government subsidy.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 below gives details of employees in employment in Scotland, England and Wales in the four quarters of 1978.

Table 1 Employees in Employment : Scotland, England & Wales ('000)

<u>Scotland</u>	<u>Total</u>	<u>Males</u>	<u>Females</u>	<u>Females/Males</u>
March 1978	2058	1190	868	0.73
June 1978	2079	1202	877	0.73
Sept. 1978	2088	1203	885	0.74
Dec. 1978	2081	1199	882	0.74
<u>England & Wales</u>				
March 1978	19998	11822	8176	0.69
June 1978	20142	11870	8272	0.70
Sept. 1978	20223	11923	8300	0.70
Dec. 1978	20319	11907	8412	0.71

Source: Department of Employment Gazette

Table 3 Regional Unemployment and Vacancies in the UK, June 1979

Region	Unemployed ¹ (000)	Unemployment ³ rate	Vacancies ² (000)	Unemployment/ vacancies ³
South East	266,300	3.5 (3.8)	116,400	2.3 (2.6)
East Anglia	29,900	4.1 (4.8)	9,200	3.3 (4.9)
South West	88,200	5.4 (5.8)	18,900	4.7 (6.2)
West Midlands	116,900	5.0 (5.2)	16,100	7.3 (8.6)
East Midlands	71,300	4.5 (4.8)	16,100	4.4 (4.9)
Yorks & Humber	109,100	5.2 (5.7)	17,700	6.2 (7.6)
North West	185,300	6.5 (6.8)	21,300	8.7 (10.1)
North	107,300	7.8 (8.4)	11,500	9.3 (11.2)
Wales	79,100	7.2 (7.9)	11,200	7.1 (10.7)
Scotland	164,500	7.3 (7.7)	22,700	7.2 (8.7)
Great Britain	1,221,700	5.2 (5.5)	261,000	4.7 (5.5)
N Ireland	57,900	10.2 (11.1)	1,400	41.4 (50.4)
UK	1,279,600	5.3 (5.7)	262,400	4.9 (5.7)

1 Seasonally adjusted, excluding school leavers

2 Seasonally adjusted, excluding vacancies notified to careers offices

3 Figures for March 1979 in brackets

Source: Department of Employment

As the table shows, employees in employment in Scotland in December 1978 totalled 2,081,000, higher than in the first half of the year, but 9,000 lower than in September. This is in contrast to England & Wales where employment rose throughout the year, including an increase of 96,000 in the last quarter. Closer inspection of the data indicates that male employment fell in both Scotland and in England & Wales between September and December 1978, but while female employment also fell in Scotland, it rose substantially in the rest of Great Britain. The final column of Table 1 shows that the ratio of female to male employment in Scotland remained approximately constant over the year, indicating that employment changes for each sex moved roughly in parallel. These figures also illustrate that the proportion of females in employment is persistently higher in Scotland than in England & Wales.

Table 2 gives a breakdown of total employees in employment in December 1978 by broad industrial sectors.

Table 2 Employment by Sector December 1978

Sector	Scotland		England & Wales	
	No. Employed (000)	% of total	No. Employed (000)	% of total
Agriculture, fishing forestry	48	2.3	325	1.6
Manufacturing	612	29.4	6555	32.3
Construction and utilities	229	11.0	1693	8.3
Services	<u>1192</u>	<u>57.3</u>	<u>11746</u>	<u>57.8</u>
TOTAL	2081	100	20319	100

Source: *Department of Employment Gazette*

As the table shows, Scotland had a higher proportion of total employment in primary industries and in construction and utilities than had England & Wales. It also had a lower proportion of employment in manufacturing than the rest of the country. As noted in the previous Commentary, Scotland continues to have a lower manufacturing/service employment ratio than England and Wales.

Total registered unemployment in Scotland fell slightly in the second quarter of 1979 to 182,769 in June, a reduction of 228 from March. The June figures, however, include a large number of school leavers and if these are excluded then unemployment in Scotland was some 17,400 lower in June than in March. Seasonally adjusted, the figures still indicate a fall in unemployment over the second quarter, though of smaller dimensions (approximately 6,800). This improvement in the second quarter of 1979 was predicted in the last issue of the Commentary, where it was suggested that first quarter unemployment had been seriously exacerbated by the bad weather and the series of industrial disputes which occurred throughout the winter. It may well be that the second quarter improvement is largely a 'one off' reaction to the better climate (both meteorological and industrial). Indeed, given the gloomy predictions of real output growth in the economy during the remainder of 1979, it is difficult to see further significant reductions in unemployment during the final two quarters.

Table 3 gives a regional analysis of UK unemployment and vacancies in June 1979 (provisional). As column 3 shows, the unemployment rate was lower in every UK

region in June than it had been in March. Vacancies were also generally higher in June, and the combination of this and the lower levels of unemployment led to a healthy fall in the unemployment/vacancy ratios in every region. In spite of these improvements, Scotland's relative position actually worsened somewhat in the second quarter: its unemployment rate was 3rd highest in the UK in June (compared with 4th in March) and the Scotland/Great Britain unemployment relative worsened slightly to 140.5. This is the second successive quarter in which the unemployment relative has worsened.

A breakdown of unemployment and vacancies by individual Scottish regions is given in the regional review elsewhere in the Commentary. In this section, a new series is begun in Table 4 below which disaggregates Scottish unemployment by broad occupational groups. The latest figures available are for March 1979.

Table 4 Scottish Unemployment by Occupation : March 1979

Occupation *	Unemployed			Unemployment/ Vacancies by Occupation
	Male	Female	Total	
Managerial & Professional	5264	4221	9485	4.7
Clerical & Related	5642	15464	21106	6.8
Other non-manual	2714	8211	10925	6.8
Craft & similar	18643	2103	20746	4.8
General labourers	56636	12473	69109	58.0
Other manual	<u>26710</u>	<u>11499</u>	<u>38209</u>	<u>5.2</u>
TOTAL:	115609	53971	169580	8.6

* Occupational groups are those used in the List of Key Occupations for Statistical Purposes

Source: Department of Employment Gazette

The table shows that most of the unemployed in March 1979 were general labourers or other manual workers, but there was a clear difference in proportions between male and female unemployed: while 72% of male unemployed were manual workers, only 44% of female unemployed fell into these occupational categories. Indeed the largest single female unemployment group was clerical and related occupations. A crude measure of the supply of occupational skills relative to the demand for those skills is given by the unemployment/vacancies ratio by occupation (column 5 Table 4). The figures in this column show that the relative supply/demand position varies among occupational groups. By far the most striking statistic is the very high unemployment/vacancy ratio for general labourers, indicating that the numbers unemployed in this occupation greatly exceed the number of notified vacancies requiring these skills. Clearly, the inference must be that employment prospects for this type of worker are particularly bad.

Figure 7 updates the series of quarterly estimates of labour supply (defined as employees in employment plus registered unemployed) in Scotland by including data for December 1978. In that month labour supply was estimated to be 2,239,700, a decrease of 17,200 from the previous quarter. This is consistent with previously observed seasonal trends which indicate that in the period September-March withdrawals usually outnumber additions to the labour force, with the reverse being true between March and September. Male labour supply fell by 12,000 during the quarter and female labour supply by 5,200. The graph shows clearly that the continuous increase in labour supply (allowing for seasonal variation) observed during 1975-77 did not persist during 1978. Indeed, labour supply in December 1978 was 14,500 less than in December 1977. Unemployment also fell between these two

months by approximately 15,000. This suggests that there was a greater balance between net changes in labour supply and new jobs created in 1978 than had existed in the three previous years, when additions to the labour force greatly outnumbered new job opportunities, with a consequent rise in unemployment.

In previous Commentaries, possible explanations of this apparent fall had been forwarded: a slight reduction in female activity rates coinciding with a rise in the birth rate, or a reduction in activity rates due to increasing numbers of long-term unemployed withdrawing from the labour market. It is difficult to conceive that this reduction will be maintained however. Demographic forces are still strongly indicative of an increase in the labour supply over the medium-term. (See the special article on labour supply and demand in this issue.)

In summary, the employment position in Scotland in the second quarter of 1979 was much improved over that of the first quarter, with a fall in the numbers of unemployed and an increase in notified vacancies. The situation for certain occupational groups, e.g. manual workers, was however particularly bad. The improved second quarter figures may simply reflect the poor conditions of the first quarter rather than indicate any continuing improvement in the labour market. This, combined with the forecasts of very low (or even zero) growth in real output, suggests that further reductions in unemployment of this order of magnitude are unlikely in the third and fourth quarters of 1979.



Source: Department of Employment Gazette

REGIONAL REVIEW

The aim of this feature is to provide, - and then evaluate, a series of economic indicators for the three Island and nine mainland regions of Scotland. While initially the available data base may appear to be limited it is hoped that it can be expanded, thus enabling a more expansive commentary on the level and direction of regional economic performance within Scotland. Clearly the extent to which this can be achieved will be dependent on the co-operation received from those bodies actively concerned with the developmental process at this level, particularly the Regional Councils. Nonetheless the available series of statistics encompassing unemployment, investment, wages, and earnings provide a basis on which to proceed.

This first review presents the regional statistics currently available, together with a brief profile of some of the regions. The other regions will be considered in later issues.

Unemployment and Vacancies

Regional Unemployment and vacancies for June 1979 are shown in Table 1.

Table 1 Unemployment, The Unemployment Rate and Vacancies Notified by Scottish Regions June 1979

Region	Total Unemployed*	Unemployment Rate%*	Vacancies
Borders	1,344	3.5 (4.5)	509 (399)
Central	8,248	7.2 (6.9)	1,101 (841)
Dumfries and Galloway	4,290	8.0 (8.7)	469 (293)
Fife	10,530	7.9 (7.7)	1,348 (900)
Grampian	8,178	4.6 (5.0)	3,195 (2097)
Highlands	6,275	8.4 (10.8)	1,473 (1212)
Lothian	22,137	6.5 (6.6)	3,932 (3334)
Strathclyde	106,631	9.8 (9.5)	11,624 (9720)
Tayside	13,609	8.0 (7.9)	1,604 (1403)
Western Isles	966	11.8 (16.7)	263 (105)
Orkney	360	5.7 (6.3)	28 (61)
Shetland	201	2.8 (3.4)	315 (249)
Scotland	182,769	8.1 (7.8)	25,861 (19904)

*Figures for March 1979 are in brackets. Unemployment totals and the unemployment rate include school leavers and are not seasonally adjusted. Vacancies include those notified at careers offices.

Source: Department of Employment

In most of the regions unemployment fell during the second quarter of 1979. However, Strathclyde, Fife, and Tayside all registered marginal increases. Significant improvements were exhibited in the more peripheral regions, - the Borders, Highlands, Dumfries and Galloway, and the Western Isles. The significant seasonal element within these regional economies probably accounts for this improvement. With the exception of Orkney all regions experienced an increase in the number of

job vacancies.

From examination of Table 1 it is clear that there are significant variations in regional unemployment rates. Compared to the Scottish average of 8.1% the rate in Shetland was 2.8%, in the Borders 3.5% and in Grampian 4.6%. The rate for the Western Isles was much higher at 11.8%. The remaining regions are clustered around the overall Scottish rate.

Regional Investment Grants

Arguably RIG provide a surrogate for investment activity in Scotland. With the exception of Aberdeen District the whole of Scotland has, at the time of writing, Development or Special Development Area status and all new industrial investment qualifies for regional aid. Table 2 shows the amounts of regional development grants over £25,000 received by each district council for the period 1 January 1975 to 31 March 1979. Since only those grants valued over £25,000 are included, it must be borne in mind that the results will be somewhat biased toward those districts where the scale of industrial development is large. Further, a small proportion of these grants cannot be allocated to any particular district: these have been omitted from the results.

Since the new government has announced changes in regional policy, - particularly in the manner in which investment is subsidised, Table 2 which shows the geographical distribution of regional investment grant within Scotland makes interesting reading. There is very little correlation between these districts which have received large amounts of investment aid and areas of high unemployment. It is therefore doubtful that the grants have succeeded in bringing 'work to the workers'. Rather it appears that regional development grants have been of particular assistance to those industries which, for economic or political reasons, have been expanding rapidly in Scotland recently. Further, it is by no means certain that those investments would not have occurred had no development grants been available.

This last point can be illustrated by examining the situation of the 'Top 3' in Table 2, - Motherwell, Orkney, and Falkirk. Motherwell's leadership is almost entirely due to British Steel's decision to rebuild Ravenscraig Steelworks. It could be pointed out that in this instance the regional grant amounts to no more than an internal transfer of resources from one arm of government to another.

Table 2 Regional Investment Grants Over £25,000 1/1/75 - 31/3/79

District Council Area	Total (£'000 at 1975 prices)	Per Capita (£ at 1975 prices)
1. Motherwell	61749.78	386.91
2. Orkney	3592.31	202.94
3. Falkirk	20371.31	142.67
4. Cunninghame	13872.92	105.53
5. Ross and Cromarty	3785.4	97.06
6. Monklands	6687.45	61.45
7. Clackmannan	2651.4	55.38
8. Banff and Buchan	3943.15	53.68
9. Annandale and Eskdale	1869.07	53.12
10. Kirkcaldy	7466.89	50.58
11. Angus	4272.8	48.38
12. West Lothian	4322.91	35.67

Table 2 (cont)

District Council Area	Total (£'000 at 1975 prices)	Per Capita (£ at 1975 prices)
13. Dumbarton	2671.85	35.39
14. W Isles	997.28	33.7
15. Inverness	1655.02	32.97
16. Inverclyde	3531.24	32.03
17. Argyll and Bute	1909.64	29.55
18. Renfrew	5833.62	28.18
19. Nithsdale	1556.61	27.76
20. Glasgow City	24018.63	27.28
21. Aberdeen City*	5598.99	26.31
22. Clydebank	1547.29	24.17
23. Strathkelvin	1890.47	23.63
24. Edinburgh City	6617.38	18.3
25. East Kilbride	1517.19	18.22
26. Cumnock and Doon Valley	1145.42	18.11
27. Hamilton	1914.86	17.9
28. Kyle and Carrick	1772.19	16.65
29. Nairn	152.3	16.37
30. Berwickshire	278.96	15.94
31. Midlothian	1316.16	15.74
32. Dunfermline	1682.51	13.64
33. Skye and Lochalsh	126.00	13.12
34. Dundee City	2409.77	12.37
35. Kilmarnock and Loudon	1189.1	12.14
36. East Lothian	3113.28	11.9
37. Lechaber	234.65	11.87
38. Shetland	203.02	10.94
39. Cumbernauld and Kilsyth	542.69	10.86
40. North East Fife	467.74	10.45
41. Perth and Kinross	1153.24	9.67
42. Ettrick and Annandale	304.83	9.44
43. Tweeddale	102.39	7.36
44. Stewartry	150.7	6.73
45. Stirling	509.54	6.46
46. Gordon	302.01	6.31
47. Kincardine and Deeside	205.46	5.94
48. Roxburgh	161.82	4.53
49. Lanark	189.31	3.55
50. Wigtown	100.56	3.36
51. Badenoch and Strathspey	27.85	2.96
52. Caithness	84.2	2.84
53. Bearsden and Milngavie	75.26	2.01
54. Sutherland	21.13	1.76
55. Eastwood	0.00	0.00

*From April 1978 Aberdeen City no longer had Developmental Area Status and as such no longer qualifies for Regional Investment Grants.

Source: Trade and Industry

In Orkney the majority of the investment grant has gone to the Flotta oil terminal. Again, it is interesting, given the proximity of the oil fields, to speculate on the extent to which the availability of the regional grants influenced the decision to invest at this location. The number of permanent jobs provided by this project are not likely to be large. A similar argument applies to Grangemouth, in Falkirk district, where the petro-chemical installations there have received the major part of the grants paid.

A large proportion of development grants have probably been paid, as in the instances above, to industries which are locationally immobile with little payoff in employment terms. A more successful employment strategy would probably concentrate on the attraction of 'free-floating' industry and on those immobile industries whose expansion could be tied to the creation of additional jobs.

Wages and Earnings

The tables below show the average hourly and weekly earnings received in the Scottish regions by full-time manual and non-manual workers. As can be seen, there is some variation between regions. The predominantly rural Borders, Tayside, and Dumfries and Galloway have lower average hourly rates and earnings than the other regions. While this may to some extent reflect their agricultural bias, other similar regions, notably Highland, are better placed.

Table 3 Earnings by Region (Male) as at April 1978

Region	NON MANUAL		MANUAL	
	Average Gross Weekly Earnings (£)	Average Hourly Earnings (p)	Average Gross Weekly Earnings (£)	Average Hourly Earnings (p)
Central	93.1	210.7	85.9	184.8
Dumfries & Galloway	79.9	182.8	-	-
Fife	85.4	186.0	79.0	169.8
Grampian	97.0	202.2	89.7*	49.3*
Highland	89.0	195.1	-	-
Lothian	85.9	201.3	74.9	162.8
Strathclyde	89.5	198.5	83.5	175.1
Tayside	79.7	182.1	69.7	151.4
Borders	-	-	66.7*	150.7*
SCOTLAND	88.5	197.5	81.4	170.7

*These results have a relatively wide margin of sampling error.

Source: *New Earnings Survey, 1978*

Table 4 Earnings by Region (Female) as at April 1978

Region	NON MANUAL		MANUAL	
	Average Gross Weekly Earnings (£)	Average Hourly Earnings (p)	Average Gross Weekly Earnings (£)	Average Hourly Earnings (p)
Central	53.0*	130.5	-	-
Fife	52.9*	124.2	47.2	117.8
Grampian	55.1*	144.3	-	-
Lothian	56.0	148.8	48.9	122.3
Strathclyde	54.6	139.4	51.1	125.1
Tayside	54.3	142.5	49.5	121.8
SCOTLAND	54.6	140.5	50.2	123.6

*These results have a relatively wide margin of sampling error.

Source: *New Earnings Survey, 1978*

BORDERS

One of the smaller Scottish regions with a population in 1977 of 100,300 Borders Region has one of the stronger regional economies. The region has one of the lowest unemployment rates in Scotland. A predominantly rural area with no settlement larger than 20,000, its economy was until comparatively recently heavily biased towards agriculture and textiles. Employment in these industries has been declining. With little replacement employment being created, the response to this decline was outward migration. Thus with migration acting as an equilibrating factor the region's unemployment rate tended to be low. Additionally, as is often the case in rural areas, the participation rate tended to be low. Even as recently as 1976 the labour participation rate for the region was considerably lower than that in the more industrialised Lothian and Strathclyde regions.

While migration seems to have fallen, the region is still feeling its effects. The working population has to support a higher proportion of retired people than in any other region in Scotland, 23% of Tweeddale District's population are retired- for Berwickshire District the equivalent figure is 22%.

Despite the problems a successful industrial attraction programme has created new employment. Prominent amongst the new entrants to the Borders have been electronics and food processing firms. Significantly these have tended to be 'small firms' in character and indeed small firms dominate within the region.

As can be seen from Table 3 both weekly and hourly earnings for manual workers within the region, - the only category for which this information is available, are well below the national average. This is probably indicative of the region's agricultural base.

As suggested above, and shown in Table 1, the regional rate of unemployment is low. Within the region there are no significant divergences. In May 1979, the most recent date for which data at employment exchange area is available, only the Eyemouth exchange registered a combined male and female unemployment rate in excess of 5%. Indeed, by Scottish standards the rates for Peebles at 2.2%, Galashiels, 3% and Kelso 3.4% are remarkably low.

DUMFRIES AND GALLOWAY

This predominantly rural region shares many similarities with neighbouring Borders region. Agriculture is still a major regional employer and even now parts of the region are devoid of industry of any type. Examination of Table 5 shows that the proportion of the working population employed in Agriculture, Forestry and Mining, - the 'Primary' sector is much higher than is the norm for Scotland. The proportion employed in manufacturing is significantly below the Scottish level.

Table 5 Dumfries and Galloway Region: Economic Structure (by employment)

Sector	Location Quotient 1976*
Primary (SIC I - II)	3.14
Manufacturing (SIC IV - XIX)	0.78
Construction (SIC XX)	0.99
Utilities and Services (SIC XXI - XXVII)	0.98

<u>*Number employed in sector in region</u> <u>Total employment in region</u>	<u>Number employed in sector in Scotland</u> <u>Total employment in Scotland</u>
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The dependence on what are in employment terms 'declining' sectors of the economy, the small manufacturing sector in combination with a growing labour force have all combined to produce problems of high unemployment; low wages and incomes (see Table 3); a low labour participation rate and population decline.

While the region has enjoyed a significant expansion of employment over the years 1967-76 (+ 9.6%), and in particular in the manufacturing sector it has been the centrally located towns of Dumfries, Annan, Gretna, and Lockerbie which have been the main beneficiaries. Located on or near to the main North-South trunk routes and now being the recipients of both local authority and Scottish Development Agency employment initiatives these towns have been successful in capturing migrant investment in both the manufacturing and services sector. The most significant recent acquisitions have been ICI who have established a new plant at Dumfries, and Glaxo at Annan. Together these have provided a considerable number of new jobs. The Glaxo plant will employ over 800 people. With the more established Uniroyal at Dumfries, these firms have been responsible for Annandale and Nithsdale's high placing in Table 2.

However the outlying rural areas of Upper Nithsdale, Upper Annandale, the Stewartry of Kirkcudbright, and Wigtownshire have been by passed. Consequently unemployment in these areas has tended in recent years to be very high. Thus while unemployment in Annan and Dumfries stood at 6.0% in May the equivalent rate at Newton Stewart was 14.4%; at Sanquhar 17.3%; and at Stranraer 11.5%. Not surprisingly these areas had a long history of outmigration and indeed depopulation. Wigtownshire's population has been in decline since 1851.

CENTRAL

This region consists of three District Council areas of Falkirk, Clackmannan and Stirling. It includes both sparsely populated rural areas and heavily industrialised urban areas.

The region's economy has experienced considerable change over the last decade. While there has been a small increase in total employment, of greater significance perhaps has been the change in its composition. Thus over the period 1967-76 there was a substantial decline in the numbers employed in the primary sector (- 53%) due largely to a continued decline in coal-mining. Manufacturing (- 84%) and construction (- 9.4%) also declined. Conversely employment within the services sector increased by 22.8%, or by 10,400. Between 1971 and 1976 the most dynamic elements within the regional economy in terms of numbers employed

were clothing and footwear (+ 69%), gas, electricity and water (+ 41%), professional and scientific services (+ 38.5%), miscellaneous services (+ 26.7%), and timber and furniture (+ 21.7%), textiles (- 43.2%), mining and quarrying (- 44.2%) and electrical engineering (- 62.7%) all suffered substantial declines.

During 1978 there was a general increase in the level of activity within the region as compared with the previous year. The main source of new employment was in the clothing and textiles industries. Five major firms expanded their workforce.

In the petro-chemical sector considerable employment is being generated by the construction of new plant but few permanent jobs are being created and a number of jobs were lost due to one plant's closure. During 1978 the National Coal Board announced plans for a proposed new shaft at Castlebridge which should stabilise employment there.

As can be seen from Table 2 the region features prominently in the take up of Regional Development Grant. In 1978, with less than 5% of Scotland's labour force Central Region received 19% of the Grant. However to reinforce the points made in the section on investment grants about 90% of this was accounted for by three firms, BP, ICI, and Montague Midland Leasing Limited.

In common with the rest of Scotland the region's unemployment rate has increased during the 1970's. However standing at around 6.2% for most local exchange areas within the region in May 1979 it was low in comparison to most of the rest of Scotland's industrial areas.

The Regional Council and the Scottish Development Agency are actively involved in industrial development projects and the Region has a number of recently established industrial estates. Attempts to develop the indigenous sector, and in particular the small firm sector, are likely to dominate the Regional Council's industrial policy in the period to come.