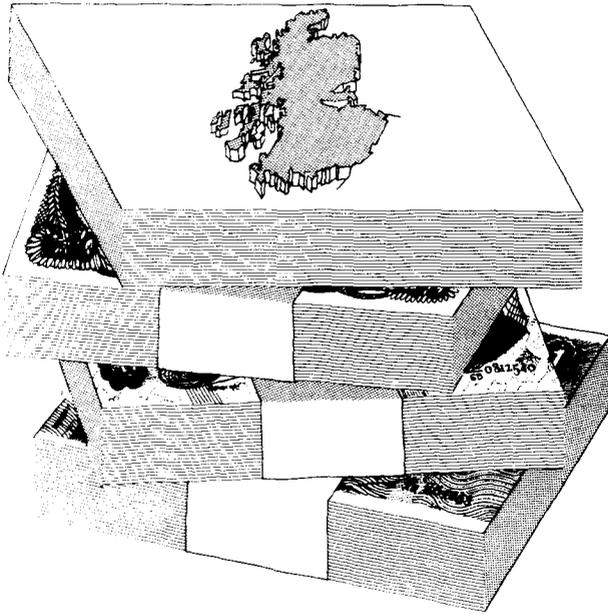


INDICATORS OF ECONOMIC ACTIVITY

The Scottish Economy

PRODUCTION

The most recent official data on industrial production in Scotland are for the first quarter of 1979. The index of industrial production in Scotland shows total output to have fallen by 2% between the last quarter of 1978 and the first quarter of 1979*. At 98.5, this is the lowest recorded value of the index since it was re-based to 1975 = 100. For the UK as a whole, the index was 109.7 for 1979 I, a fall of 0.3% from the last quarter of 1978. These figures confirm the continuing relative decline in Scotland's industrial performance.



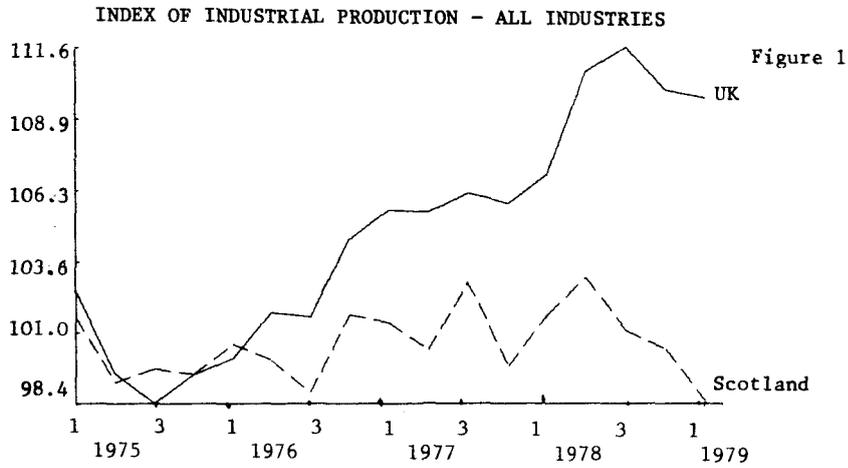
All sectors, except for Gas, Electricity and Water, showed a decline in output, the most marked being in Metal Manufacturing. While the figures may to some extent reflect the effects of an unusually severe winter, and the dislocations caused by the winter's industrial troubles, there is no evidence of any sustained recovery in the level of industrial production as a whole, despite the sharp rise in consumption expenditure in 1978 and early 1979. Results of the CBI Industrial Trends Survey for Scotland taken in July 1979 suggest that while a recovery in output occurred in the second quarter of this year, the recovery will be short-lived. Compared with the relatively favourable outlook expressed in the April Survey, the July Survey reports a sharp fall in confidence regarding output, exports and employment in the twelve months from July. With respect to employment, a balance of 3% of respondents reported an increase in numbers employed in the four months to July, but a balance of 4% of respondents expect numbers employed to fall in the latter half of the year.

INVESTMENT

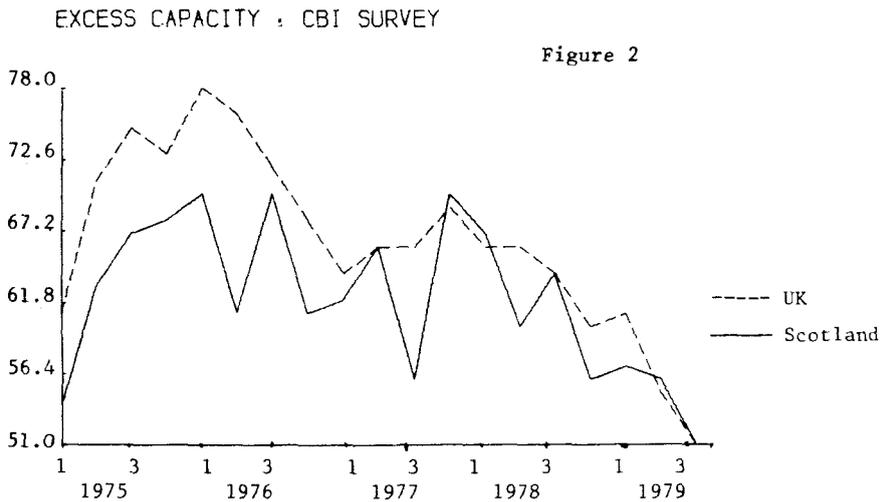
Investment intentions are similarly unfavourable; although the number of respondents operating below capacity fell from 56% in April to 51% in July, only a balance of 8% expect to authorise a higher level of expenditure on plant and machinery over the next twelve months, and a balance of 19% expected to authorise less capital expenditure on buildings. Given the apparent incapacity of domestic industry to cope with increased consumer demand, such as occurred in 1978/79, this reluctance to increase capacity tends to reinforce the combination of sluggish output growth and increased import penetration in times of increasing demand which has characterised the British economy in the 1970's.

In summary, while the index of industrial production should record increases in the second and third quarters of 1979, such increases are unlikely to be sustained through next year.

*Unless otherwise stated, data are seasonally adjusted.



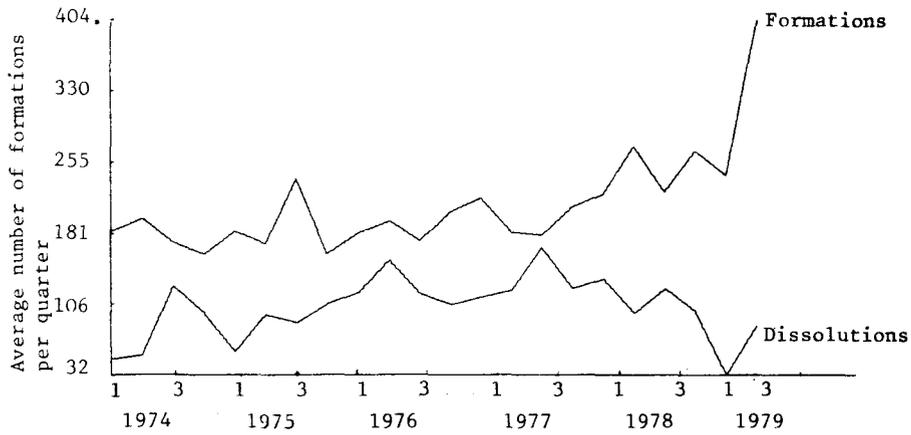
Source: S E P D



Source: C B I Industrial Trends Survey

SCOTTISH COMPANY FORMATION AND DISSOLUTION

Figure 3



Source: Registrar of Companies

AVERAGE HRS OVERTIME

Figure 4



Source: Department of Employment Gazette

*COMPANY FORMATIONS
AND DISSOLUTIONS*

At 1213 the number of new companies incorporated in the second quarter of 1979 reached a new record level and continued the rapid upwards trend noted in the July issue of this Commentary (see Figure 3). However the trend of this indicator is so much at variance with other indicators as to invite the suspicion that the rate of new company formations is a poor indicator of current or future economic activity; rather, it may reflect changes in business organisation.

OVERTIME

The percentage of operatives on overtime in Scotland rose from 31.9% in the first quarter of 1979 to 35.9% in the second quarter, while average overtime worked per week rose from 8.7 to 9.0 hours. Overtime working normally increases in the second quarter of the year, though both the percentages of operatives on overtime, and the number of overtime hours worked show a marginal increase over the corresponding quarter in 1978; this is consistent with the improvement in output reported by the CBI survey and noted above. The secular increase in overtime working is also consistent with the hypothesis that, faced with higher costs of hiring and firing, employers increasingly prefer to cope with cyclical fluctuations in demand by varying hours worked rather than numbers employed.

*CONSTRUCTION
ORDERS*

Final figures for the value of new orders received by contractors in Scotland for the second quarter of 1979 showed a sharp jump over the previous quarter, and total orders were up 45% over the corresponding quarter last year. Compared to the first quarter, the biggest increase is recorded in private sector housing orders, but significant increases are noted in public sector housing, industrial construction work and office building. However, higher mortgage interest rates, cuts in public expenditure and the fall in business confidence reported in the CBI Survey suggest that this minor boom in construction activity will be short-lived. Nevertheless it may be expected to lend some buoyancy to output and employment in the second half of 1979.

*BANK
ADVANCES*

Advances to UK residents (including the company, financial, public and personal sectors) by Scottish Clearing Banks as at mid-August 1979 were £93m (3.3%) higher than at mid-May 1979, and £392m (15.8%) higher than mid-August 1978. In the quarter to mid-August, the increase in advances was largely absorbed by the agricultural sector (+ £59m), local government (+ £18m) and the personal sector (+ £49m); advances to the manufacturing and financial sectors actually fell. In the year to mid-August, the greatest increase in advances have also been to the agricultural and personal sectors, while advances to manufacturing industry have increased by only 12%. Although up-to-date information on company profits are not available, the last quarter's fall in advances to manufacturing is consistent with the lower level of stock-building and investment intentions predicted by the CBI July Survey.

Taken together, the indicators generally suggest an increase in economic activity in the second and third quarters, above the abysmal first quarter level, followed by a slackening off through the final quarter of the year and the early part of 1980.

INDUSTRIAL PERFORMANCE

AGRICULTURE

Provisional returns for the June 1979 Agricultural Census give the impression that the pattern of Scottish agriculture has remained fairly static over the last year. Overall cereal acreage has not changed although there was a 12% increase in wheat acreage and a further 22% decline in oats. There was an increase in seed potato acreage and pressure for a potato regime is expected to diminish as supply and demand improve. A Scottish Seed Potato Association has been established.

Cattle numbers were down 1% over the previous June and a pattern of lower imports and marginally higher exports is emerging as prices follow the seasonal pattern downwards. Pig numbers have continued to fall although the rate of decline has slackened. Farmers in the North East will be adversely affected by the closure of the slaughtering and bacon curing side of Lawsons of Dyce. An attempt to form a farmers' co-operative has failed. The market for lamb and mutton is very depressed. Scottish lamb prices fell throughout August to below the standard price and lower than in the previous summer. The European Court ruled that France must withdraw its import controls on lamb and mutton and thereby open up its market to British producers. The French however are prolonging their ban and have obstructed a test consignment sent by British farmers. They claim to be awaiting the formation of a sheepmeat regime - itself another source of disagreement. The British, unlike the French, wish the regime to be free of common funding with nations subsidising their own farmers.

FISHING

As part of the EEC Commission's attempt to resume negotiations with Britain on a Common Fisheries policy the UK was taken to the European Court to test the legality of their recent conservation measures introduced in the North Sea. The court decided that the UK had contravened the Treaty of Rome, although the Commission stressed that they were criticising the unilateral action, not the measures themselves. After nearly three years of discussions there appear to be no short-term solutions to forming a fisheries policy.

Meanwhile the industry in Scotland has suffered further setbacks. Landings for the first two months of 1979 were 61,687 tonnes compared with 62,009 tonnes for the same period in 1978. Demersal landings accounted for the greatest decline with haddock landings falling sharply. Reductions in whiting and haddock quotas have recently been introduced. Over fishing and bad weather have made for a poor lobster season. The fish drying factory at Breaslete in Lewis has paid off half of its 20 employees after only five months trading. The plant was set up with £2.3m assistance from the HIBD to process local ling in spite of opposition from fishermen's organisations.

OIL AND GAS

Production of North Sea oil dropped slightly in August to 1.663mbd from 1.702mbd in July due to maintenance work on some fields. However production for the first six months of 1979 increased 53% over the same period last year and in August 1979 was 48% greater than in August 1978.

There was a small increase in the number of rigs operating in the North Sea over the summer but concern is still expressed about the low rate of exploration activity. A recent report from BNOC's economic department pointed out that 38% of blocks and part blocks allocated during the first four licensing rounds were completely unexplored. Recently a number of licences allocated under the 6th round were ratified and Acro have already started drilling in the Moray Firth. Companies have been asked to submit recommendations for blocks that should be licensed. A second well on Phillip's new Tiffany field has given good results and favourable reports have been received from recent drillings by Total, Union Oil and Conoco. BP has made a new discovery near its Andrew field and further appraisals will be carried out.

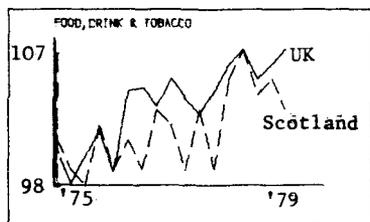
Amoco's proposal to develop the North West Hutton field has been approved by the Department of Energy. Marathon have submitted a £700m plan for the development of their Southern Brae field. A single fixed platform is envisaged and separate development plans for the central and northern parts of the complex field will probably be filed later. There are tentative schemes for the development of the Phillip 'T' block - Toni, Thelma and Tiffany. If further wells sunk on Thelma and Tiffany give satisfactory returns three separate structures are expected.

The government strategy on the future of the British National Oil Corporation has been announced and, as widely anticipated, it sees a continuing but more limited role for the Corporation. It is to be re-organised into two distinct undertakings. Firstly it will be subject to the same conditions as private concerns in its exploration and development activities and will lose its favoured status and role of government adviser. Secondly trading in crude oil will continue to be carried out by ENOC in its capacity as a wholly owned government subsidiary. It is the government's intention to offer shares in ENOC and a number of schemes are being considered. The government's plans to sell up to £400m of ENOC's £1 billion assets have been dropped after considerable opposition within ENOC. As an alternative the Corporation is to raise finance by negotiating forward oil sales. Wood Mackenzie estimate that 25% of ENOC's oil entitlement would be needed to be sold in advance if the target £400m is to be raised.

Pressure on world prices, after the July increases, has recommenced. From October 1 the Nigerians have added a surcharge and have breached the ceiling price of \$23.50 a barrel accepted in June. It was recently announced that oil companies will have to pay a premium for guaranteed deliveries from ENOC. Further pressure will be evident at an OPEC oil ministers meeting in December.

As mentioned in the previous Commentary there has been intense competition amongst continental countries to become involved in gas gathering plans in the Norwegian sector of the North Sea. In the light of the latest Shell find in the Norwegian sector it seems likely that the Norwegian reserves are approaching the size when an independent pipeline becomes feasible. No final decision has been made but a pipeline linking all the Norwegian reserves to Germany rather than to a British land-fall is probable. The addition of Norwegian fields would greatly strengthen the case for an expanded gas gathering network. A British feasibility study is being carried out and will report within the next few months.

FOOD, DRINK & TOBACCO



Output for the food, drink and tobacco industries grew during 1978 by 4% but dropped during the first quarter of 1979 by 2%. This can mainly be attributed to lost production during the lorry drivers strike and the effect of severe weather conditions. Output should have increased as firms recouped lost production and may exceed 1978 levels. Indeed, the July CBI Industrial Trends Survey shows that 22% of firms expect to increase output in the next four months while only 1% expected output to decrease. The main growth area in this group is alcoholic drink which over the last ten years has grown to account for 7.8% of household expenditure in Scotland and is now the third largest item on the household budget, below food and housing.

Despite the continued strength of sterling a balance of 6.9% firms replying to the CBI survey expected their export orders to rise in the next four months.

The loss of 500 jobs at the Lawsons of Dyce plant will have serious implications for other jobs because of the strong linkages of the food industry with farming and distribution. (See also Agriculture).

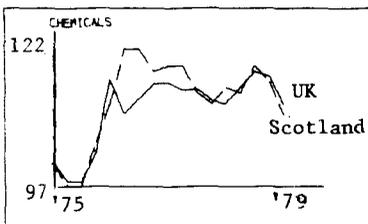
WHISKY

After a fall back in output due to industrial trouble during the first three months of the year, whisky production increased substantially between April and June. Production for the first six months of the year was 89,973 thousand proof gallons compared with 87,825 thousand proof gallons over the same period the previous year.

The volume of exports for the first six months was 7.4% lower than for the first six months of 1978, although the value - £309m - was greater due to higher prices. Again strikes affected the early part of the year. Scotch sales in the United States fell 17% while bottled blend exports for the half year fell 7.1%. It is interesting to note that bottled malts increased 43% over the previous year while exports of bulk malts, the source of much controversy, fell by 5% to 4,746 thousand proof gallons. This is still 12.8% greater than the 1977 figure.

In response to fears about the growth of Japanese whisky which utilize Scottish bulk malts, the Scottish Trade Union Congress is organising a conference to discuss voluntary agreements to restrict the trade. If the participants fail to agree the STUC will consider taking direct action.

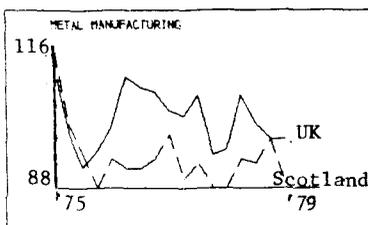
CHEMICALS



Despite environmental objections the government have approved the construction of a £500m separation plant and ethane cracker at Moss Morran in Fife. These will use gases from the Brent field. Shell will be selling its share of butane and propane from the separation plant to Northern Liquid Fuel International of Omaha through a ten-year contract worth \$100m per year at 1976 prices. The ethylene produced is the most important ingredient in the production of detergents, paints and plastics. It is hoped that by 1982/83 the two plants will employ 370 permanent staff but the overall effect on employment will be much higher if plastics manufacturers can be encouraged to set up nearby.

Output in the Chemicals, Coal and Petroleum Products group of industries fell during the first quarter of 1979 as a result of industrial disputes and bad weather. Compared with the first quarter of 1978 output was 5% lower, but should have risen in the second quarter of 1979 as companies regained lost production. The July CBI Industrial Trends Survey shows, on balance, firms expecting to increase output in the next four months. This optimism is likely to be short lived because of increasing domestic costs and the strength of sterling.

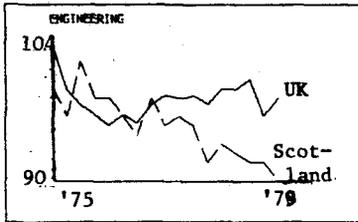
METAL MANUFACTURE



The downward trend in the output of metals was arrested by expanding production from the new Ravenscraig plant. Industrial disputes in the first quarter of 1979 depressed output by 9% over the last quarter of 1978. The impact of the engineering dispute and the dispute at Hunterston is likely to prevent an overall rise in output this year. Production is still being held up at the new ore and coal terminal at Hunterston by an inter-union dispute over who should do the dock work. Resolution of the dispute would allow production at Ravenscraig to be greatly increased and enable production to commence at the direct-reduction plants at Hunterston.

The CBI Industrial Trends Survey displays a gloomy picture over the four months from July a balance of 16% of respondents expecting output to fall.

ENGINEERING



Production fell in the Engineering and Allied Industries group during 1976, 1977 and 1978. This trend continued into the first quarter of 1979, with output only 90% of its 1975 level. The July CBI Industrial Trends Survey shows 31% of firms expecting to increase output in the next four months, and 13% expecting to reduce output, continuing a similar trend to that experienced in the four months up until July when firms were recovering from the disputes of early 1979. However the effect of the engineering dispute will set back production plans as well as considerably weakening financial positions.

Electrical engineering continues to be a growing sector with several new developments. General Instrument Microelectronics have undertaken a major expansion in microcircuits at Glenrothes. IBM have expanded into production of colour display computer terminals at Greenock. A half-million pound expansion by Erskine Weatayr of Irvine should create 150 jobs.

Elsewhere the closure of several major concerns underlines the gradual destruction of Scotland's traditional industrial base. John Brown Engineering of Clydebank recently laid-off 600 workers from a workforce of 2,000. This company, with several awards and a previously very strong export record, has suffered recently from a drop in the demand for gas turbines and strong US competition as a result of the weak dollar. Since 1972 5,500 engineering jobs have been lost in Clydebank as a result of lay-offs; a further 3,000 redundancies are expected following the closure of Singers.

In Dundee, 600 jobs at the Timex watch-making factory are threatened.

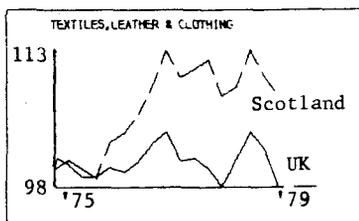
SHIPBUILDING

H P Drewry, shipping consultants, forecast an even bleaker future for the shipbuilding industry than the picture put forward by other industry experts. They do not expect an upturn in demand until 1983 and they predict a continuation of the trend away from West European production. In Europe the EEC are drawing up plans for a 'scrap and build' policy which could have a beneficial effect on Clydeside.

British Shipbuilders have announced detailed plans to reduce the UK merchant shipbuilding workforce by 10,000 over the next 18 months with the objective of reaching financial viability in two years. Their task in securing sufficient orders over the next two years to sustain even the reduced capacity, is considerable. After some opposition from the workforce, the unions have accepted British Shipbuilders' revised proposals. Yards will not be shut down permanently but placed on a 'care and maintenance' basis and the reduction in the workforce will be achieved by early retirement and voluntary redundancies.

In Scotland four yards were scheduled to be closed - Scott Lithgow at Cartsdyke, Scotstoun Marine, Scott and Sons, Bowling and Robb Caledon at Dundee - with further cuts at Govan, Scotts of Greenock and John Kincaid. Overall nearly 4,000 jobs were involved although the transfer of the Scotstoun yard to Yarrow's, who are bidding for various naval contracts, could save a number of jobs.

TEXTILES, LEATHER & CLOTHING



A small expansion of output in 1978 was followed by a decline during the first quarter of 1979. The CBI Industrial Trends Survey shows a balance of 44% of firms feeling less optimistic about prospects in their industry. For 96% of firms prices were the major constraint on obtaining export orders. The failure of the SDA-backed Munrospun Knitwear of Edinburgh was caused by cheap competitive imports. The same problem has caused Borders knitwear manufacturers to call for import controls on Chinese cashmere.

BRICKS, POTTERY, GLASS
& CEMENT

After a sharp increase in output in the second half of 1978, output in this sector dropped substantially in early 1979. This tends to be a sector where output figures fluctuate greatly from quarter to quarter because of its close association with the construction industry. Pottery and glass however were also severely affected by problems of distribution during the industrial disputes of the Winter.

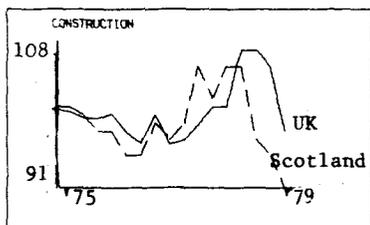
United Glass are going ahead with plans to develop a glass recycling plant at Kellibank in Alloa.

Despite rising costs it can be expected that output of this group as a whole will rise during the year.

TIMBER, FURNITURE

Production fell in the first quarter of 1979 to an index level of 96 from an average of 100 for 1978. Most of this fall can be attributed to distribution problems caused by the winter industrial disputes and production should be recouped later this year.

CONSTRUCTION



Production in this sector declined rapidly throughout 1978 and reached an index level of 91 in the first quarter of 1979. This is the lowest level of production since 1975. However new orders received by contractors give a more optimistic view for the rest of 1979 (see Leading Indicators section). New orders for private sector housing leapt from £28million to £79million between the first and second quarter. In the same period orders received by contractors from the public sector rose from £116million to £130million. It can be expected that this upward trend will level off with the expectation of higher mortgage rates and because gloomy prospects elsewhere in industry will restrain investment.

PLATFORMS

New platform orders were not anticipated over the summer. BP's Mangus contract is expected to be awarded later in the month. Highland Fabricators and McDermott's are reputed to be the strongest contenders. Amoco is to invite tenders for a semi-submersible rig for the North West Hutton field. Contracts for a single fixed platform for Marathon's Brae field, a second platform for Beryl and a tension-leg platform for Conoco's Hutton field are expected next year.

Aside from the problems of adapting to the new technologies involved in tension-leg platforms the re-opening of Hunterston and the diversification at Howard Doris has intensified competition for steel platform orders. Redundancies have been announced in yards where prospects appeared improved a few months ago. At Redpath de Groot Caledonian work is continuing on a deck structure for Beatrice and a platform for North Cormorant. However 300 of the 700 work-force are to be laid-off and efforts are being made to increase productivity. At McDermott's the work-force was cut by 500 in May and there is limited work until next summer. At Highland Fabricators nearly three quarters of the 1600 work-force were to be made redundant at the end of September. A steel jacket for Shell/Essso is their only work in progress. At Howard Doris/NAPM employment is building up to fill the Phillip's contract for a steel deck for the Maureen field.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 below shows the number of employees in employment in the four quarters to March 1979 in Scotland and in England and Wales.

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

<u>Scotland</u>	<u>Total</u>	<u>Males</u>	<u>Females</u>	<u>Females/Males</u>
June 1978	2079	1202	877	0.73
Sept 1978	2088	1203	885	0.74
Dec 1978	2081	1199	882	0.74
March 1979	2059	1185	874	0.74
<u>England & Wales</u>				
June 1978	20142	11870	8272	0.70
Sept 1978	20223	11923	8300	0.70
Dec 1978	20319	11907	8412	0.71
March 1979	20103	11802	8301	0.70

Source: Department of Employment Gazette

As the table shows, employment in Scotland was lower in March 1979 than in any of the preceding three quarters and in fact fell by 22,000 from December 1978. Both male and female employment dropped by roughly the same proportions between December and March so that the female/male ratio remained constant. The Scottish experience was paralleled in England and Wales where employment fell by 216,000 between December and March.

Table 2 shows the breakdown of employment in Scotland by broad industrial sectors in March 1979. The percentage breakdown of total employment by sector was very similar in March to that in December, though there was a slight increase in the share of services relative to manufacturing: the service/manufacturing employment ratio rose from 1.947 in December to 1.959 in March.

Table 2: Employment in Scotland by Sector March 1979

<u>Sector</u>	<u>No Employed (000)</u>	<u>% of Total</u>	<u>Change in No Employed Dec 78 - March 79</u>
Agriculture, Fishing & Forestry	48	2.3	0
Manufacturing	603	29.3	-9000
Construction & Utilities	227	11.0	-2000
Services	1181	57.4	-11000
TOTAL	2059	100	-22000

Source: Department of Employment Gazette

Table 3: Regional Unemployment and Vacancies in the UK: September 1979

<u>Region</u>	<u>Unemployed</u> ¹	<u>Unemployment Rate</u> ³	<u>Vacancies</u> ²	<u>Unemployment</u> ³ <u>/Vacancies</u>
South East	257,700	3.4 (3.5)	108,100	2.4 (2.3)
East Anglia	29,300	4.0 (4.1)	8,300	3.5 (3.3)
South West	88,200	5.4 (5.4)	17,200	5.1 (4.7)
West Midlands	116,600	5.0 (5.0)	14,600	8.0 (7.3)
East Midlands	67,400	4.2 (4.5)	15,100	4.5 (4.4)
Yorks & Humber	108,000	5.1 (5.2)	16,000	6.8 (6.2)
North West	185,000	6.5 (6.5)	20,500	9.0 (8.7)
North	107,400	7.8 (7.8)	10,100	10.6 (9.3)
Wales	78,000	7.1 (7.2)	9,600	8.1 (7.1)
Scotland	167,700	7.4 (7.3)	22,500	7.5 (7.2)
Great Britain	1,204,200	5.1 (5.2)	241,900	5.0 (4.7)
N. Ireland	59,800	10.5 (10.2)	1,200	49.8 (41.4)
UK	1,264,000	5.2 (5.3)	243,100	5.2 (4.9)

¹Seasonally Adjusted, excluding school leavers

²Seasonally Adjusted, excluding vacancies notified to careers offices

³Figures for June 1979 in brackets

Source: Department of Employment Gazette

This ratio continues to be higher for Scotland than for England and Wales where its value was 1.79 in March. In other words, the service sector in Scotland is associated with a relatively smaller manufacturing base than is the case in the rest of the country. It is also clear from the table that the fall in total Scottish employment between December and March was concentrated in the manufacturing and service sectors, with the largest absolute fall in the latter but the largest percentage fall in the former.

Total registered unemployed in Scotland numbered 177,244 in September 1979, a fall of 5,525 from June. The June figures, however, included a large number of recent school leavers, and if these are excluded then unemployment actually rose between June and September by 7,150. Seasonally adjusted, a rise in unemployment in the third quarter was still indicated, though by a smaller amount (3,200). Clearly, apart from the apparent success of school leavers in finding at least temporary employment over the summer period, the improvement in the unemployment situation between the first and second quarters of 1979 was not continued into the third quarter. As suggested in the previous issue of the commentary, the relatively good second quarter results probably reflected a 'catching up' from the particularly bad winter and the deterioration in the third quarter is expected to be a better reflection of underlying trends in unemployment in view of the economy's poor current and expected performance.

Table 3 gives an analysis of unemployment and vacancies by UK region for September 1979. Although UK unemployment was lower in September than it had been in June, this was not spread evenly throughout the country and in some regions, including Scotland, the unemployment rate was higher in September. Scotland's unemployment rate remained the third highest in the UK in September but the Scottish/Great Britain unemployment relative worsened for the third successive quarter to 145.1 from 140.5 in June. In all regions there was a reduction in the number of notified vacancies between June and September of sufficient magnitude to ensure across-the-board worsening of unemployment/vacancies ratios.

Scottish unemployment by occupational group is given in Table 4 below for June 1979.

Table 4: Scottish Unemployment by Occupation: June 1979

<u>Occupation</u>	<u>Unemployed</u>		<u>Total</u>	<u>Unemployment Vacancies by Occupation⁺</u>
	<u>Male</u>	<u>Female</u>		
Managerial & Professional	4876	3869	8745	4.2 (4.7)
Clerical & Related	5423	15675	21096	6.4 (6.8)
Other non-manual	2511	7734	10245	4.3 (6.8)
Craft & Similar	14874	2284	17131	2.9 (4.8)
General Labourers	51138	11931	63069	39.9 (58.0)
Other manual	22152	10638	32790	3.6 (8.6)
TOTAL	100947	52129	153076	6.3

⁺ March 1979 figures in brackets.

Source: Department of Employment Gazette

As in March 1979, the largest proportion of total unemployed were in the occupations general labourers and other manual workers with 63% of all unemployment in these two groups. The June figures confirm a difference in pattern between male and female unemployment: 73% of male unemployed were manual workers while only 43% of females fell into these occupational categories. These proportions are virtually identical to the March 1979 equivalents which suggests that though the absolute numbers of unemployed may vary significantly from quarter to quarter, the pattern of unemployment by occupational group is relatively stable. The Unemployment/Vacancies ratios in column 5 give a crude measure of the supply of labour skills relative to the demand for those skills, and comparison of the March and June figures shows an improvement in the relative supply/demand position in every occupational group in the latter month. The June ratio for general labourers still remained alarmingly high and indicates the continuing poor employment prospects for workers in that category.

Finally, Figure 5 updates the quarterly estimates of Scottish labour supply (defined, as employees in employment plus registered unemployed) by including data for March 1979. In March, total labour supply was estimated to be 2,242,000 which represented a decrease of 10,700 from December 1978. This is the second successive quarter in which total Scottish labour supply fell. As indicated in previous commentaries, there is a seasonal tendency for labour supply to fall in the period September - March, but nevertheless labour supply in March 1979 was still 7,000 lower than in March 1978. It is clear, therefore, that the rapid growth in Scottish labour supply which occurred between 1975 and 1977 has since been halted, at least temporarily.



Source: Department of Employment Gazette

REGIONAL REVIEW

There are many influences on regional economic performance and this quarter the review concentrates on two - local authority finance and central government regional policy. The review also presents data on assistance received from the European Regional Development Fund and on unemployment. Unfortunately, it is not possible to present Regional Investment Grant data for the second quarter of 1979 due to an industrial dispute.

European Regional Development Fund

Seventeen Scottish projects are to receive a total of £1.9 million in grants from the European Regional Development Fund. All of the projects involve the provision of infrastructure and will be carried out by local authorities and other public bodies. This is the third allocation of grants this year. The Fund operates by giving assistance to public bodies towards the cost of specific investment projects.

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, September 1979

Region	Total Unemployed*	Unemployment Rate*	Vacancies*
		%	
Borders	1249	3.2 (3.5)	443 (509)
Central	7707	6.8 (7.2)	1039 (1101)
Dumfries & Galloway	4200	7.8 (8.0)	370 (469)
Fife	9743	7.3 (7.9)	1379 (1348)
Grampian	7858	4.4 (4.6)	3303 (3195)
Highlands	6078	8.2 (8.4)	1057 (1473)
Lothian	21723	6.4 (6.5)	3886 (3932)
Strathclyde	104489	9.6 (9.8)	11263 (11624)
Tayside	12693	7.4 (8.0)	1469 (1604)
Western Isles	923	11.3 (11.8)	226 (263)
Orkney	387	6.1 (5.7)	70 (28)
Shetland	194	2.4 (2.8)	217 (315)
Scotland	177244	7.8 (8.1)	24720 (25861)

* Figures for June 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

During the third quarter of 1979 unemployment declined in all Scottish regions with the exception of Orkney. At least part of this reduction can be attributed to seasonal factors. The decrease was, however, marginal, and total unemployment only fell by 5525. There remain significant variations in regional unemployment rates although the relative positions of the regions remain unchanged.

The number of notified vacancies fell by 1141 from the previous quarter. Grampian, Fife and Orkney were the only regions to enjoy a rise in the number of notified vacancies. However, in comparison with the same period of last year there has been an overall increase in vacancies.

Local Authority Finance

An immediate problem facing the administrative areas of Scotland is the proposed cutback in local authority allocations from central government. The Budget implied that the government were to reduce the rate support increase order for 1979-80 by £35 million. Further cuts are proposed, with a reduction in the rate support grant of £175 million the government's current intention. This figure does not, however, achieve the total cutback in local authority expenditure of 7½% which has been considered by the government for 1980-81.

While no firm decisions have been taken, it is possible that the shortfall will be made up by reductions in capital expenditure. Such a move would have serious implications on construction employment, largely outside the public sector. While cuts in rate support grants mainly affect new recruitment and the level of services provided by a local authority, a decrease in capital expenditure will adversely affect the private sector, particularly the building and construction industry since contractors generally receive about 50% of their work from the public sector.

Regional Investment Grants

Since the last Commentary the Industry Secretary has announced changes in central government's regional policy. In summary the changes were confined to two main policy areas. First a fundamental revision of the status of many Development and Special Development Areas (DA's and SDA's) was announced. Second, the rate at which regional investment grant is paid will be reduced. As such, therefore, the regional policy inherited from the last government remains essentially intact; the measures announced amount to a pruning exercise rather than a fundamental change in policy.

The immediate effects of these changes are easy to comprehend in the Scottish context. In contrast to the situation preceding the announcements, the distribution of Development and Special Development Areas within Scotland is now much more complex. Prior to the announced changes the whole of Scotland, with the exception of Aberdeen and Stonehaven Employment Exchange Areas, comprised one huge Development or Special Development Area. Now, as can be gauged from the re-designations listed below the situation has been significantly altered.

Considered in conjunction with the announced cuts in regional investment grants these changes effectively answer, albeit in a slightly negative fashion, the criticism that the prevailing distribution of DA's and SDA's within Scotland improved the potency of regional policy. With the whole country effectively one large development area there was little in the way of quantitative incentives to influence the spatial distribution of new investment within Scotland. Qualitative factors, - the quality of the local labour force, environment, etc. - not to mention the degree of industrial promotion and marketing, tended to be the discriminating factors. With the loss of Development and Special Development status, and the cut in the rate at which investment grant is paid, from 20% to 15% in DA's, the rate for SDA's is unchanged at 22%, a degree of differentiation has now been established.

The changes in designation to a large extent reflect the prevailing distribution of relative prosperity in Scotland. Accordingly most of the East Coast and Borders have been re-designated and will now lie outside the ambit of regional policy. Conversely, in addition to maintaining their status, some of West Scotland's Development Areas have been upgraded to SDA status.

However, amongst the changes there are some which attract comment. Despite having by Scottish standard a relatively low rate of unemployment of 6.7%, Falkirk and Grangemouth, one of Scotland's strongest growth centres, maintains its designation as do all of the New Towns. Presumably growth rather than employment criteria were responsible for this arrangement. A number of anomalies exist elsewhere. Forres, which lost its status, has an unemployment rate of 12.2%. This is in excess of that prevailing in Ayr and Troon which were raised to SDA status. It would appear that a number of factors in addition to those so far mentioned are taken into account when redesignating DA's and SDA's.

In common with many other commentators, the last issue of the Commentary voiced some cynicism about regional policy's efficiency. It was argued that much regional investment grant was expended on projects which were capital intensive or were expanding autonomously. Given the nature of the cuts, some beneficial effects could arise here. New onshore oil installations or petro-chemical complexes will not now be eligible for funds from this source, for example. And given the reduced rate of investment grant, the total amount of grants payable on any particular project will not be as great as in previous years.

Changes in Development Area Status

Upgraded from Development Area to Special Development Area:

Troon, Largs, Kilmarnock and Ayr.

Downgraded from Development Area to Intermediate Development Area:

Stirling, Alloa, Anstruther, Castle Douglas

Downgraded from Development Area to Non-Assisted Area:

Dumfries, Annan, Lockerbie, Edinburgh, Dalkeith, Leith, Loanhead, Musselburgh, Portobello, Tranent, Penicuik, Perth, Crieff, Banff, Buckie, Cupar, Elgin, Eyemouth, Fofar, Forres, Fraserburgh, Galashiels, Haddington, Hawick, Huntly, Kelso, Kirkwall, Lerwick, Montrose, Nairn, Peebles, Peterhead, St. Andrews

Downgraded from Intermediate Area to Non-Assisted Area:

Aberdeen, Stonehaven

OUTLOOK AND APPRAISAL

The previous two issues of this Commentary have both indicated that the Scottish economy has been performing poorly since the mid 1970's. This is true in both an absolute and a relative sense. Manufacturing production only increased by 1.2% between 1976 and 1978 and, after dropping below 1975 levels in the first quarter of 1979, is unlikely to show any substantial improvement for the year as a whole. In an international context the 1975-1978 performance can best be described as appalling. Over the same period industrial production in Eire grew by 28%, in Japan and the US by 23% and in West Germany and France by 15%. Inertia in developing new markets and lack of competitiveness in existing markets both contributed substantially to the virtual stagnation of Scottish output. However, it is only when a large closure occurs, such as the recently announced shutdown of the Singer plant at Clydebank, that the media and general public begin to become aware of the malaise which runs throughout Scottish industry. Unfortunately the disease is difficult to treat because it cannot be ascribed to one single cause. Lack of investment certainly contributed to the downfall of Singer. Poor management caused the closure of Prestcold, according to the SDA. Workforce intransigence coupled with (possibly unfair) foreign competition has resulted in the closure of the pig processing plant of Lawson of Dyce. The Talbot plant at Linwood is threatened because of a dispute at one of its sister plants in England. A collapse in the world market for shipping and decades of low productivity in the industry have led to the virtual demise of Scottish shipbuilding. A different set of difficulties confront those industries which are trying to expand. There is some evidence of shortages of skilled workers acting as a binding constraint on expansion, particularly in the electronics industry.

Because the problems are so diverse, so too must be the solutions. The suggestion, following the Singer collapse, that the main problem of Scottish industry is its overdue reliance on external investment is overly simplistic. Many foreign firms operate successfully in Scotland, have high levels of productivity and good industrial relations. The foundations of the rapid growth of the Irish economy in recent years lie with the successful attraction of foreign investment. Not to encourage further foreign investment in Scotland would reduce the growth rate below its already low levels.

As a corollary to the above, it has been argued that what is needed is the encouragement of native entrepreneurial talent. Quite how this is to be achieved, even if such talent exists, is unclear. If one takes the view that such abilities are inherent in an individuals make-up, then all one can do is to encourage greater effort. The present government believe this can be done by altering the tax structure, though the evidence for this is largely heuristic. On the other hand, if such abilities need to be inculcated, then there is an argument for increasing the contact between the business and educational establishments which at present in Scotland view each other with an air of mutual suspicion. However, almost any policy aimed at encouraging entrepreneurship will, of necessity, only be effective in the long run, whereas the beneficial effects of foreign investment are immediate. Further it does not necessarily follow that an improvement in entrepreneurial skills will lead to an increase in job opportunities. Indeed the reverse might be the case if the application of such skills only leads to more efficient utilisation of the existing workforce.

There are two further points worth noting about the steady decline of Scottish manufacturing industry in recent years. Firstly, this decline has taken place at a time when regional policy was operating strongly. Regional investment grants, regional employment premium and a further battery of measures all were operational for at least part of the period 1975-1978. While one cannot conclude conclusively from such evidence that regional policy was ineffective, the behaviour of the Scottish economy over this period does not suggest that it was an outstanding success. The late sixties and early seventies were a time when the disparities between Scotland and the rest of the UK narrowed sharply. These changes have

often been ascribed to regional policy though a similar narrowing of regional disparities occurred in other parts of the world, where regional policy was much less apparent. This suggests that more fundamental forces (for example the shift from manufacturing to services) were behind these changes. There is a presumption in some quarters that this narrowing of differentials is a once and for all shift and that the ascendancy will always now lie with those forces which promote this narrowing. Recent experience does not suggest that such a conclusion is justified. It may be that from an historical viewpoint the late sixties and early seventies will be treated as aberrant; and that the normal position of the Scottish economy will be seen to be lagging relative to the rest of the UK.

Secondly, one of the more fundamental forces which will influence Scotland's economic performance is that of industrial structure. Yet it is difficult to see that this can now exert a strong effect on the performance relative to the rest of the UK. The reason is simply that Scotland's industrial structure as measured by the distribution of employees in employment now bears a much closer resemblance to that of the UK as a whole than it did previously. Thus it would seem that the difficulty lies not in what is being produced but rather the efficiency with which it is being made.

Following this discussion, it is almost superfluous to indicate that short-term prospects for the Scottish economy are not good. As indicated in the UK section, gross domestic product in the UK may well fall during 1980. There is no reason to believe that the same will not occur in Scotland. In the July Commentary it was forecast that unemployment (seasonally adjusted) would be around 162,000 in October. Given September's figure of 167,700 this forecast may well turn out to have been too optimistic. For December a level of 173,000 was predicted, implying a definite upturn in the level of unemployment. There is no reason why such a trend should not continue. Therefore, one would expect a level of around 179,000 by March.