

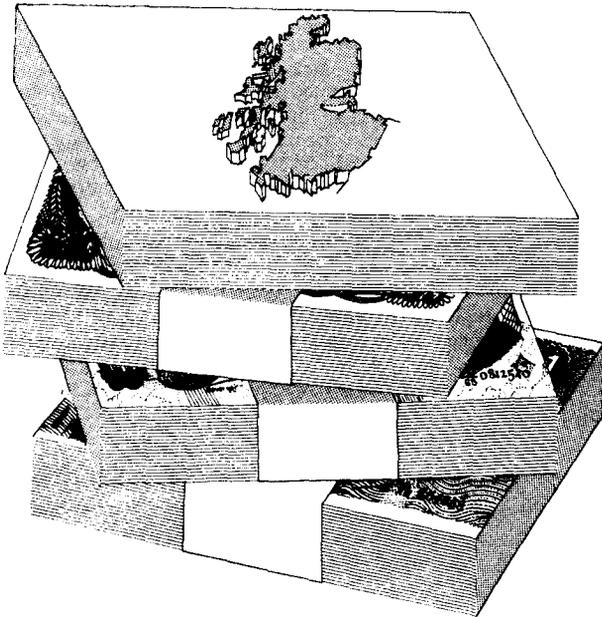
INDICATORS OF ECONOMIC ACTIVITY

PRODUCTION

The most recent data on industrial production is for the third quarter of 1979, and a number of salient statistics are summarised on page 10.

The Scottish Economy

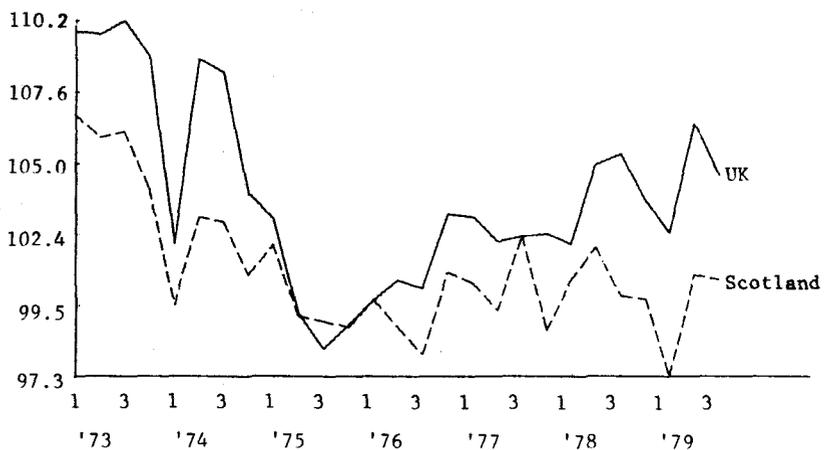
Production declined in the third quarter, though less than in the UK as a whole; moreover, the second quarter figures were themselves boosted by a recovery in production following industrial disputes and bad weather in the first quarter. Production improved marginally over the corresponding quarter of 1978, and on annual basis manufacturing output records an increase of just over 1%.



The CBI Industrial Trends Survey (Scotland) taken in January 1980 continues to reflect the lack of optimism noted in the October and earlier surveys. The results of the survey suggest a further decline in manufacturing output in the fourth quarter of 1979, though probably less marked than the decline noted between the second and third quarters. In the engineering sector, however, a balance of 41% of respondents report higher export orders. A positive balance in export orders and deliveries is also reported by the textiles and other manufacturing sectors, while for the sample as a whole (all sectors of manufacturing) higher export orders are reported by 33% of respondents, against 13% reporting lower orders. In contrast the corresponding figures for the UK are 16% and 30%.

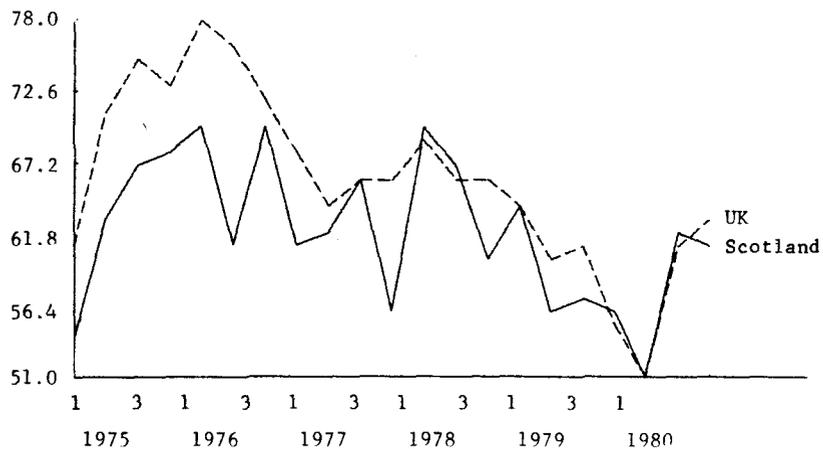
Despite the improvement in export orders, the general outlook is for a further fall in output and particularly employment during the first quarter of 1980 in all sectors. Comparing the Scottish results with those for the UK as a whole, and noting the relative changes in the indexes of production discussed above, there are signs that the relative decline in Scottish industrial production evident since 1975 may have ceased, though the overall trend of output is still downwards.

INDEX OF INDUSTRIAL PRODUCTION - ALL INDUSTRIES



Source: S E P D

EXCESS CAPACITY - CBI SURVEY



Source: C B I Industrial Trends Survey

INVESTMENT

With 61% of respondents reporting below capacity output (virtually the same as in October), investment intentions are poor. A fall in capital expenditure on buildings and plant and machinery is reported by a balance of 26% of CBI respondents, and this decline (though in varying degrees) is reported by all sectors.

*COMPANY FORMATIONS
AND DISSOLUTIONS*

At 727 the number of new companies incorporated in the first quarter of 1980 declined over the previous quarter, although remaining similar to the corresponding quarter of 1979. The number of company dissolutions increased from 213 in the fourth quarter of 1979 to 304 in the first quarter of 1980. The decrease in company formations and increase in dissolutions is consistent with reports of continued business pessimism as described in the CBI Survey.

OVERTIME

The average number of hours of overtime worked per operative declined by 0.4 hours in the fourth quarter of 1979 both for Scotland and Great Britain. However, the percentage of workers on overtime in Scotland rose from the low level of 28.3% in the third quarter of 1979 to 36.2% in the fourth quarter. Both the total number of overtime hours worked and the number of operatives working overtime also increased over the same period. These figures reflect the traditional increased seasonal demand in the fourth quarter of the year and show little change in overtime working from the previous fourth quarter. The most recent figures, for January 1980, exhibit a decline in overtime hours similar to that of the previous January.

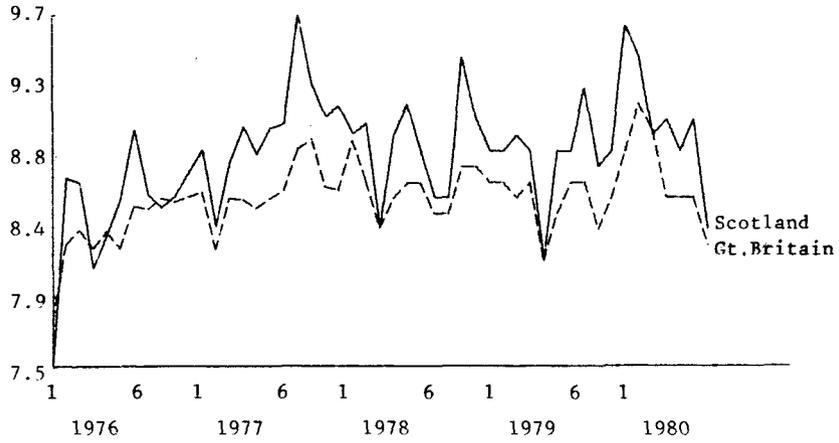
CONSTRUCTION

The value of new orders received by contractors in Scotland in the fourth quarter of 1979 did not decline as expected, but rose slightly over the previous quarter and were up 28% over the corresponding quarter in 1978. Public expenditure cuts had not then affected the total value of public construction work which remained similar to the previous quarter. Yet there was an increase in public sector housing and miscellaneous construction orders and a decrease in public transport and energy supply orders. In the private sector there was a 52% decrease in the value of new housing orders in the fourth quarter of 1979, which may be linked to the sharp increase in the mortgage interest rate. The value of industrial construction work reached its second highest level at £73.92m in the fourth quarter of 1979 despite record interest rates, and a continuing decline in business confidence.

BANK ADVANCES

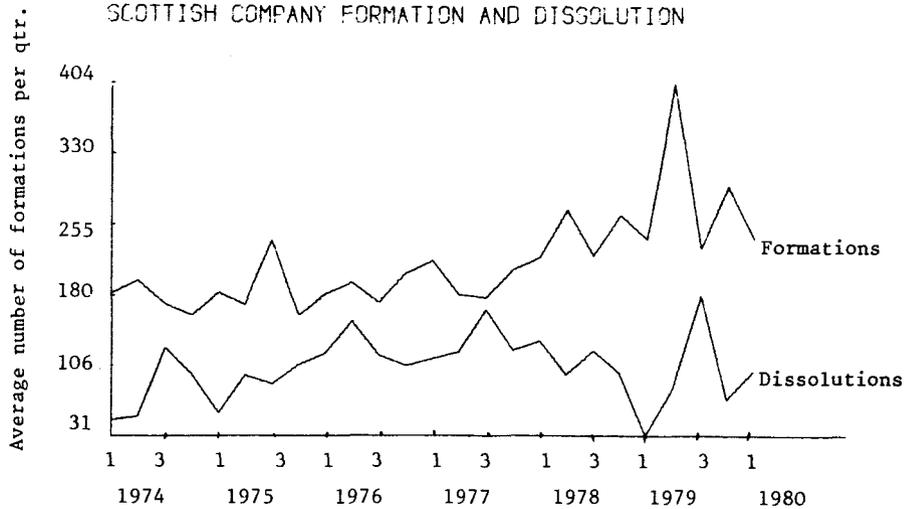
Total advances to UK residents (including company, financial, public and personal sectors) by Scottish Clearing Banks as at mid-February 1980 were £164m (+5%) higher than at mid-November 1979 and £495m (+26%) higher than at mid-February 1979. In the quarter to mid-February the increase in advances was largely absorbed by the agricultural sector (+ £31m), construction (+ £29m) and professional services (+ £38m). Advances to the food, drink and tobacco sector, shipbuilding, property companies and transport and communications actually fell. Advances to the personal sector only increased by £7m, but were £121m (+29%) higher than at mid-February last year. Despite government attempts to control the money supply, bank advances continue to increase although there are now some signs of a slow-down in the rate of growth of advances to the manufacturing and financial sectors.

AVERAGE HOURS OVERTIME



Source: Department of Employment Gazette

SCOTTISH COMPANY FORMATION AND DISSOLUTION



Source: Registrar of Companies

Indexes of Production (1975 = 100)¹

	Scotland		UK	
	All industries ²	Manufac. industries	All industries ²	Manufac. industries
3rd qtr. 1979	100.8	101.0	104.6	103.2
% change over 2nd qtr.	-0.2	-1.9	-1.8	-3.6
% change over 3rd qtr of 1978	+1.0	+0.3	-0.8	-1.6
Year on year change (%) *	-0.7	+1.1	+0.7	+0.5

* 4 quarters to 1979 (3) over 4 quarters to 1978 (3)

1. Unless otherwise stated index of production figures are seasonally adjusted
2. Excluding North Sea Oil production

Source: *Scottish Economic Planning Department*

Taken together, the indicators point to a decline in output through the last quarter of 1979 and the first quarter of 1980, and a more noticeable decline in employment. The decline in output is however less marked than might have been expected, and the relative deterioration in Scottish production appears to have abated. There are, moreover, signs of improvement in export prospects, though these are vulnerable to changes in the exchange rate, the cost of credit, and the uncertain atmosphere surrounding future developments in world trade.

INDUSTRIAL PERFORMANCE

The EEC price review for agricultural products is to be decided at the end of the month. The Commission proposed a 2.4% increase but a compromise figure of 4-5% is expected. The white paper, Annual *AGRICULTURE* Review of Agriculture 1980 reports that net production in the UK fell in 1979 by over 3%. After falling in 1977/78 net income per farm rose 33% in England, but only 3% in Scotland. In 1979/80 a fall is again forecast.

The December farm enquiry records a clear downward trend in Scottish livestock numbers. It is six months since the European Court ruled against France on the banning of sheep imports, but the French market is still not open to British lamb exporters. Milk production in Scotland was 5% down in February 1980 compared with the same week in 1979.

Agreement was reached by EEC ministers on the total allowable catch for 1980 and a system of reporting catches. Britain also withdrew its *FISHING* opposition to signing treaties with third party countries before an internal fisheries policy had been reached. However, there was no settlement to the main points at issue and the Scottish Fishermen's Federation warned recently that, unless a Common Fisheries Policy is agreed by September, the government should take unilateral action.

As the industry waits for a solution to the two year dispute, between the British government and the other EEC countries, prospects worsen. Apart from the steep rise in fuel costs and the continued disagreements over quotas and hidden subsidies imports of cod, haddock and whiting, in particular, have risen recently and undercut the home price. The recent government subsidy to the fishing industry is recognition that the industry needs short term assistance to survive. It is estimated that Scotland will receive half of the £2m allocated to raise minimum prices. Two Scottish fishermen's associations have announced plans to protect stocks on the West coast within the framework of the EEC draft resolution when a CFP is agreed. It suggests sealing a number of gaps in the twelve mile limits and giving preferential treatment to local vessels operating from communities whose livelihoods depend on fishing.

Landings of fish in Scotland in 1979 declined 15.8% to 363,772 tonnes. However, mackerel and shellfish landings rose 4.7% and 5.8% respectively. Due to the rise in prices, notably at the end of the year, the total value of landings remained unchanged at £124m.

After a fallback in production during the autumn, output from the fourteen oil fields on stream in the North Sea averaged 1.6m barrels a day in January. The Thistle field is about to reach peak output after overcoming pressure difficulties but Occidental is to cut production from the Piper field by 25% for the next six months. The start up for *OIL & GAS* Buchan, delayed since the autumn, is now expected in the late summer.

An announcement of blocks on offer for the seventh round would now be almost too late for drilling to commence this year. It is expected that bids for 70 blocks will be invited and, to the discomfort of the oil companies, the government wishes to retain the option to buy up to 51% of all new oil produced. Drilling

activity has increased with 16 rigs in operation compared with 12 a year ago. A potentially commercial find has been confirmed by North Sea Sun on block 16/21 and Marathon are testing in block 16/3 a field that may be similar in structure to the complex Brae field. Marathon's development plan for Southern Brae has been approved by the Department of Energy with production consent for a four year period. Conoco are seeking permission to develop Hutton.

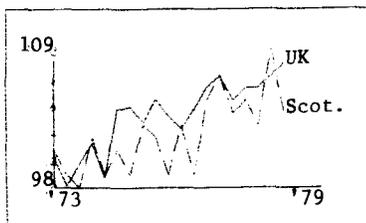
Within the framework of still rising oil prices the government has been attempting to redefine its oil policy. A number of statements on exploration licences, depletion and the structure of the British National Oil Corporation have been expected and should appear in the near future. The present uncertainty about government attitudes is considered to have an adverse effect on companies involved in the area. There have been two rises in North Sea oil prices this year following OPEC increases. Before the second increase the industry was asked to estimate the market value of oil rather than having a price decided centrally. As widely expected PRT was increased in the budget from 60% to 70%.

A statement on depletion policy is to be announced in the summer and it is thought that the Department of Energy's view, that output should be restrained to ensure self-sufficiency until at least the 1990's, will prevail. An example of the government's desire to keep a firm control on supplies is the limited staged consent given to the Brae development plan.

Last year the government announced plans to split BNOG into two parts; an exploratory and production section and a state trading section; but without specifying how the two organisations were to be linked. Detailed plans were to be drawn up to give private investors a share in exploration and production activities. However these plans have now been put aside ostensibly due to the lack of parliamentary time this session.

The latest gas gathering pipeline study commissioned from British Gas and Mobil has not yet been published but its main conclusions have been confirmed by government spokesmen. The report concludes that there is sufficient gas in an initial 12 fields to justify a £1 billion to £1.5 billion investment in a 400 mile pipeline. It will be a wet gas system, running North-South with its own link to processing at St Fergus. The government is anxious for the pipeline to be in operation by 1984/5. A Norwegian partnership, now less critical to the feasibility of the operation, is still uncertain. A second major petro-chemical processing plant is envisaged. A pipeline will link St Fergus to the Cromarty Firth where Dow Chemicals recently acquired a 500 acre site.

FOOD, DRINK & TOBACCO



The Index of Industrial Production for Scotland indicates that production in this sector fell from 109 to 104 (1975=100) between the second and third quarters of 1979. This 5% drop in output represents the second largest fall of any sector within manufacturing industry.

32% of those firms responding to the CBI Industrial Trends Survey for January were less optimistic about the general business situation than they were four months ago, while 47% are operating below satisfactory capacity. As in the previous quarter the inability to obtain orders or sales is the most important factor limiting output.

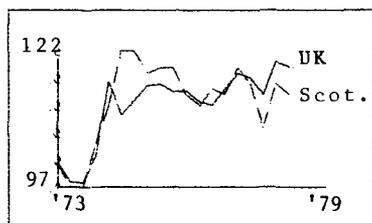
In February a significant change took place in the Scottish brewing business with Vaux Breweries troubled Lorimers operation being taken over by Allied Breweries. This could result in Ind Coope having 10% of the Scottish beer market. Scottish and Newcastle Breweries and Tennent Caledonian Breweries already have approximately 40% and 30% respectively, but there will be no reference to the Monopolies Commission.

WHISKY Whisky production in the fourth quarter of 1979 was 7.5% lower than in the same period in the previous year although annual production for 1979 - at 176,882 thousand proof gallons - was only marginally (.06%) lower than in 1978.

The volume of exports continued to improve during the last three months of 1979, after setbacks due to the transport strike at the beginning of the year, and ended only 4.3% down on the 1978 figure. The value of exports reached a record £707m. The surge in the volume of bottled malts slackened although they still recorded an annual increase of 16.7%. The controversial trade in bulk malts declined slightly in 1978 from the 9585 thousand proof gallons recorded in 1978 to 9419 thousand proof gallons. Interestingly exports of bulk malt to Japan, in contradiction of this trend, actually increased from 6294 thousand proof gallons in 1978 to 6361 thousand proof gallons in 1979. Two Canadian owned distillers, Seagrams and Hiram Walker have announced that, in spite of not accepting the arguments against the bulk trade, they have reduced bulk shipments to Japan.

The European Court decided that France, Italy, Denmark and Ireland were using their tax systems to discriminate against whisky in their home markets. The decision, in the favour of the manufacturers, should benefit sales of whisky in these countries. The Hiram Walker bid for Highland Distillers has been referred to the Monopolies Commission and a merger is unlikely to go through.

CHEMICALS



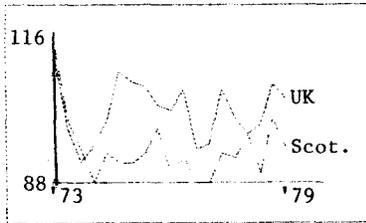
Output of chemicals, coal and petroleum products fell by 2% between the second and third quarters of 1979, from an index level of 116 to 114 (1975=100).

The January CBI Industrial Trends Survey shows that 48% of respondents are less optimistic about the general business situation in the industry than four months previously, and a massive 82% are less optimistic about their export prospects. The inability to obtain

export orders is due almost entirely to uncompetitive prices compared with overseas producers.

In contrast to the gloomy nature of the CBI Survey the Chemical Industries Association recently announced that the chemical industry is expected to spend £740m in Scotland over the next three years. This will lift Scotland's share of chemical investment from 10% last year to 26% by 1982 and will also increase the number of permanent jobs in the industry. These figures could increase even more if Dow Chemicals go ahead with their project to produce chemical feedstocks from North Sea gas (see Oil & Gas) at Nigg Bay on the Cromarty Firth.

METAL MANUFACTURE



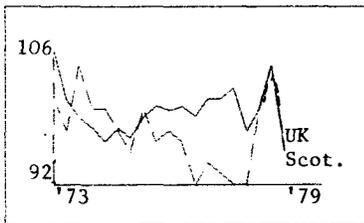
Production in this sector experienced the largest drop of all sectors within manufacturing industry between the second and third quarters of 1979. Production fell by 6% from 101 to 95 (1975=100).

Despite the ending of the steel strike the prospects for this sector do not look bright. In January, 39% of the respondents to the CBI Industrial Trends Survey said that they were less optimistic about the general business

situation in their industry than they were four months previously. More significantly 84% said that they were operating below satisfactory capacity. The inability to gain orders and the high exchange rate are seen to be the main limiting factors.

The Scottish Division of British Steel, which is the only division with a chance of expansion, lost nearly £10m during the recent three months' strike. With its refurbished Ravenscraig furnaces the Scottish Division now has a production target of 2m tonnes a year, an increase of 25% on the pre-strike production target.

ENGINEERING



Engineering was the only sector in manufacturing industry which actually experienced a rise in output during the third quarter of 1979. The 1% rise in output reflected the way in which improvements in mechanical and instrument engineering and shipbuilding, marine engineering and vehicles more than offset the downturns for electrical engineering. The January CBI Industrial Trends Survey shows that 31% of respondents were less optimistic about the general business situation in the industry than they were in October 1979. Surprisingly, in

an industry that is strongly export orientated and considering the present high exchange rate, only 5% of the firms said that they were less optimistic about their export prospects. Nevertheless 60% of the firms said that they were still operating below satisfactory capacity.

A number of redundancies were announced in the last four months. Notably SCM the producers of typewriters at Queenslie in Glasgow are laying off 500 workers due to a substantial reduction in orders. Massey Ferguson in Kilmarnock have ceased production of combine harvesters with 1400 jobs being lost at the end of May. A new small firm, Moorfield Manufacturing, had been set up by the workforce to find sub-contract work. Only one major order has been gained so far.

John Brown Engineering having been through a poor year in 1979, recently announced export orders for gas turbines worth £28.4m.

SHIPBUILDING AND VEHICLES

After thirteen years of falling order books there are signs of improvement in the world shipbuilding market. During the last quarter of 1979 British Shipbuilders obtained ten new orders compared with five during the same period in 1978. However, industry sources do not expect a significant improvement for another two or three years. British Shipbuilders have still to reduce costs and raise productivity within the industry and, according to a report by Keynote Consultants, unless it solves its current problems it will be unable to benefit from the upturn in world demand, with disastrous consequences for the industry in the UK. The

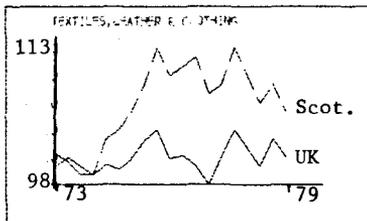
possibility that the government is considering denationalising parts of the industry is causing considerable concern and uncertainty in British Shipbuilders.

The financial incentives offered by shipbuilding nations play a crucial role in the allocation of contracts. A recent delegation from Strathclyde called for greater incentives and pointed out that only about £8m of the £65 intervention fund was being used. The 'scrap and build' scheme discussed last year within the EEC is now unlikely to take place.

In Scotland Govan Shipbuilders have secured the first contact for a British yard for a £10m re-engining of two large container ships. The conversion from steam turbines to diesel for fuel economy is a growth sector within the industry and is the type of work sought by British Shipbuilders. There is now continuity of employment for the 2500 employees at the yard until May 1981. Two small boat-builders have obtained orders worth £1m, in another expanding market - the manufacture of patrol craft. In Dundee Robb Caledon, given a temporary respite last year, have no hopes of immediate contracts when current work runs out at the end of June. As a result of a £9m order for a flagship the workforce at their Leith yard have security of employment for the next two years.

Stonefield Vehicles of Cumnock Ayrshire, the SDA's biggest investment project, has run into trouble due to lack of finance to market its highly acclaimed multi-roll truck. The Scottish Office has refused to allow the SDA to pump more money into the firm in the hope that a private buyer will move in.

TEXTILES, LEATHER & CLOTHING



From an index level of 109 in the second quarter of 1979 this sector experienced a fall in output of 3% in the third quarter. This represents the lowest level of production since the third quarter of 1976.

52% of firms replying to the January CBI Industrial Trends Survey were less optimistic about the general business situation of the industry compared with four months ago. 26% were less optimistic about their export prospects.

In February the EEC Commission agreed to authorise quota restraints on polyester filament and nylon carpet yarn. This was in response to UK demands for action to curb imports of low-priced US fibres. However there was much criticism of this decision because man-made fibre carpets were not included and because the quotas are set higher than expected. Damage to important parts of the UK textile industry is still expected to continue.

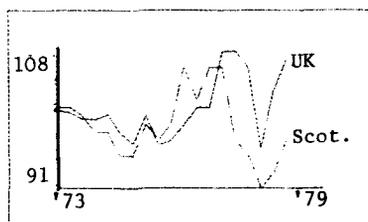
The Scottish woollen industry increased the value of their exports by 8% on last year to £34.5m. Total output however was down 9%. Ground was gained overseas, especially in Canada, although at the expense of the EEC countries.

The loss of Development Area status in the Borders, and especially the withdrawal of the 20% machinery grant could have detrimental effects on investment by the local textile industry. Redundancies have already taken place in Hawick and expansion plans abandoned elsewhere.

BRICKS, POTTERY,
GLASS AND CEMENT

This sector has the un-noteworthy distinction of having achieved the largest fall in output between the second and third quarters of 1979 of any sector. From an index level of 99 to one of 90 this sector's output fell by 9%. This fall in output is surprising given the close relationship between this sector and construction where activity actually increased in the third quarter.

CONSTRUCTION



Between the second and third quarters of 1979 production in this sector rose by 4%. This performance is unlikely to be maintained however due to the depressed nature of the economy and the recently announced cutbacks in public expenditure.

Housing has borne the brunt of the government's proposed cuts in public expenditure. Of the £159m cuts in Scottish spending announced for 1980, £99m is to be taken from the housing

budget. A further £200m is to be axed from overall housing expenditure in the years 1981-84, making an overall reduction of more than 42% compared to last year. The main effects of the public sector expenditure cuts will be therefore borne by the private construction industry rather than directly by the public sector.

PAPER, PRINTING
AND PUBLISHING

Production in this sector fell in the third quarter of 1979 by 2%. However output is still at a level well above that achieved in the previous four years.

In February Wiggins Teape and Consolidated Bathurst announced detailed proposals for a £100m newsprint mill at Fort William. This project marks a significant reversal of the declining trend in UK, and especially Scottish newsprint production. The pulp mill was otherwise due for closure.

PLATFORMS

The market for offshore construction work continues to improve. Wood Mackenzie forecast a boom in 1981 with a possible sixteen new platform orders being placed during the year. This year contracts are expected for Brae, Hutton and Beryl B fields.

After a five year development programme Conoco are seeking permission to develop their Hutton field using the world's first tension leg platform. As a technical breakthrough is involved there is considerable interest in the contract in Scottish yards. The workforce at Marathon have agreed to radical changes in working practices - a precondition laid down by UIE before further negotiations could continue. It is thought that the Cherbourg based company are anxious to tender for the tension leg contract from a British base. A further order for a £10m loading platform to be constructed mainly of concrete has been secured by Howard Doris for the Phillip's Maureen field.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 gives quarterly estimates of the number of employees in employment in Scotland and England and Wales for the period December 1978 to September 1979. The table shows that the level of employment follows a seasonal pattern with more people normally being employed in the summer months when there is a greater demand for labour from construction, agriculture and tourism.

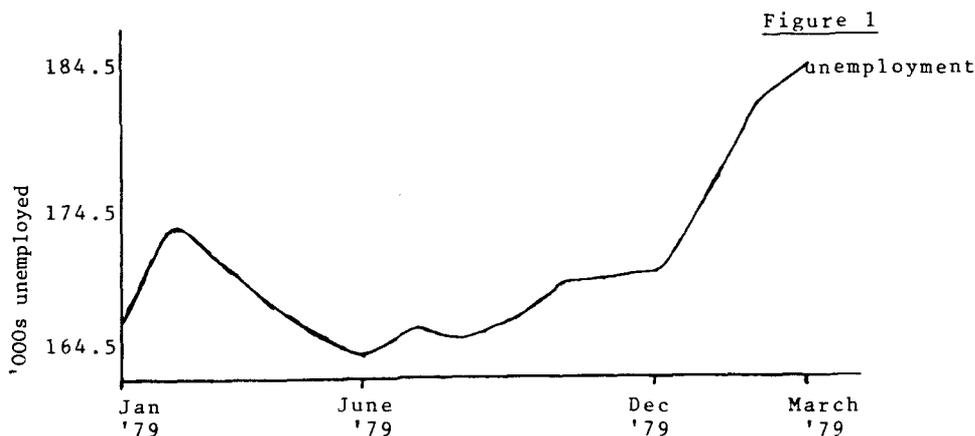
Total employment in both areas was higher in each quarter of 1979 than in the corresponding quarter of the previous year. Employment in June and September was in fact higher than at any time since June and September 1975. However in the same period, male employment fell by 25 thousand while female employment rose by 35 thousand, also apparent from Table 1.

Table 2 gives indices of employment in the manufacturing and services sectors. The table indicates a fall in manufacturing employment and a rise in services employment. Following the earlier observations on the changing sex structure of employment it is reasonable to hypothesise that the rise in female employment is largely derived from increases in demand from the service sector, particularly in financial, professional, scientific and miscellaneous services, while the fall in male employment results from a decline in demand for labour in manufacturing. Such a hypothesis is supported by the fact that female employment in South-East England has risen by a greater proportion than in say the West Midlands or North-West England, and the South-East tends to have a greater concentration and growth of services than the other two areas which are dominated by manufacturing. Thus the growth of services in Scotland would imply a rise in female jobs.

A recent study by R Parry of Strathclyde University examines the distribution of employment between the private and the public sector in Scotland. It shows that Scottish dependence on public sector jobs is not as high as is frequently imagined. Around 34% of Scottish jobs originate in the public sector compared with 31.5% in the UK as a whole. Northern Ireland, Wales and Northern England all have higher shares.

Figure 1 is a plot of seasonally adjusted unemployment from January 1979 to March 1980.

Scotland: Seasonally Adjusted Unemployment



Source: Department of Employment

Table 1 Employees in Employment 000's

	<u>All</u>	<u>Male</u>	<u>Female</u>	<u>Scotland</u>
Dec 1978	2,075 (2,068)	1,195 (1,195)	980 (872)	
Mar 1979	2,054 (2,053)	1,181 (1,186)	872 (866)	
Jun 1979	2,087 (2,074)	1,195 (1,198)	892 (875)	
Sep 1979	2,089 (2,083)	1,195 (1,199)	894 (883)	
				<u>England and Wales</u>
Dec 1978	20,278 (20,138)	11,896 (11,891)	8,382 (8,248)	
Mar 1979	20,062 (19,957)	11,791 (11,811)	8,272 (8,147)	
Jun 1979	20,233 (20,101)	11,844 (11,859)	8,389 (8,243)	
Sep 1979	20,278 (20,182)	11,896 (11,912)	9,382 (8,271)	

Source: Department of Employment Gazette

Figures in brackets are for the corresponding quarter of the previous year.

Table 2 Index of Employment in Manufacturing Services:
Scotland (1974 = 100)

	<u>Manufacturing</u>	<u>Services</u>
March 1978	90.5	103.6
June 1978	90.7	105.3
Sept 1978	91.1	105.8
Dec 1978	90.8	105.8
March 1979	89.5	104.4
June 1979	89.3	106.9
Sept 1979	88.9	107.1

Source: Department of Employment Gazette

Table 3 Average hours of overtime per week worked by operatives working overtime: 1979

	<u>GB</u>		<u>Scotland</u>	
1st quarter	8.5	(8.6)	8.7	(8.9)
2nd quarter	8.6	(8.6)	9.0	(8.7)
3rd quarter	9.0	(8.8)	9.4	(9.2)
4th quarter	8.6	(8.7)	9.0	(8.9)

Number of operatives on overtime 000's

1st quarter	1,741	(1,809)	147	(158)
2nd quarter	1,863	(1,833)	165	(165)
3rd quarter	1,516	(1,724)	130	(158)
4th quarter	1,805	(1,849)	163	(176)

Source: Department of Employment Gazette

Figures in brackets are for the corresponding quarter of the previous year.

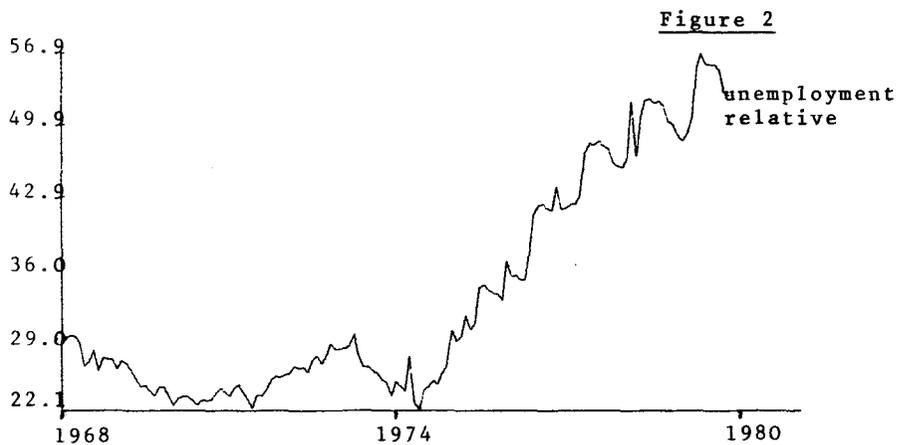
Table 4 Short-time Working in Scotland 1979

	<u>Stood off for week</u>		<u>Work part of week</u>		<u>% of all</u>	<u>Hours</u>
	<u>Average No</u>		<u>Average No</u>		<u>employees</u>	<u>lost 000's</u>
	<u>per week</u>		<u>per week</u>			
1st quarter	1.3	(.73)	4.8	(1.7)	1.3 (0.5)	110.2 (45.6)
2nd quarter	0.8	(0.8)	2.6	(2.6)	0.7 (0.7)	58.0 (64.8)
3rd quarter	1.1	(3.5)	4.0	(1.8)	1.2 (1.1)	89.8 (160.5)
4th quarter	2.9	(0.3)	8.2	(1.5)	2.4 (0.4)	207.5 (25.7)

Source: Department of Employment Gazette

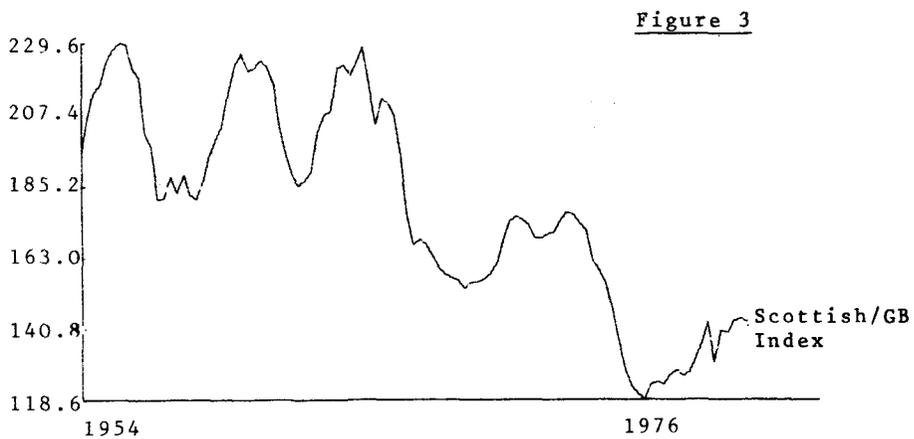
Figures in brackets are for the corresponding quarter of the previous year.

UNEMPLOYMENT RELATIVE - FEMALE/MALE * 100



Source: Department of Employment

UNEMPLOYMENT RELATIVE * SCOT/GB 1954-80



Source: Department of Employment

By May 1979 unadjusted unemployment had fallen to 165.4 thousand, the lowest level since May 1977 (164.2 thousand). A large proportion of the fall in unemployment was taken up by males, which given that male employment is falling indicates a fall in the male labour supply recently (see note on Unemployment Forecasts p 36). Figure 2 shows the female to male unemployment ratio. From mid-1974 there has been a rapid rise in this ratio, reflecting a decline of female unemployment over the period as well as the recent fall in male unemployment.

Since September 1979 the previous reductions in seasonally adjusted unemployment have been quickly reversed, with particularly large rises in unemployment in January and February. The average increase in unemployment since September has been 2,800 per month. The speed and severity of the change in unemployment is the most disturbing feature of current labour market prospects. Possibly, however, the engineers strike and the steel strike have made employers less willing to recruit and consequently disguised a more moderate underlying trend.

A recent survey by Manpower Ltd indicates that 31.6% of employers in the West Central area expect to decrease their labour force in the near future while 10.5% expect to increase theirs. In the same survey a year before the percentages were 8.3% and 22.2% respectively. Figure 3 indicates the ratio of unemployment in Scotland to that in Great Britain. The rise in the unemployment relative since first quarter 1976 appears to have halted, perhaps temporarily. A rise to the high levels of the fifties and sixties is extremely unlikely given the rise in UK unemployment levels in the seventies.

Table 3 indicates the average number of hours per week worked by operatives working overtime and the average number of operatives per week working overtime.

The figures are subject to strong seasonal influences. While average hours of overtime worked tend to peak in the third quarter of the year, at the same time the number of workers on overtime declines relative to the rest of the year. This is because most people tend to take their holidays in July and August and consequently, if the total volume of overtime is roughly constant, it must be amongst fewer remaining workers. The number working overtime tends to rise before Christmas and the holiday period probably because those who do not normally do additional work try to boost their income.

Compared with 1978 the number of workers on overtime has fallen in line with the generally deteriorating performance of the economy. Industrial disputes in the first, third and fourth quarters of 1979 were strongly to blame for the decline in the number of workers on overtime and the rise in short-time working in 1979 over 1978 with the biggest increase coming in the fourth quarter of 1979. This is not a good omen for the labour market, and is likely to be reflected in increases in the number of workers unemployed in the next few months.

REGIONAL REVIEW

This quarter, the review examines the structure plan prepared by Lothian Regional Council. As usual this section also presents regional unemployment statistics and information on the most recent awards of regional development grants from the EEC and from the UK government.

Regional Development Grants

The level of regional development grants (more than £25,000) awarded by the UK government in the last quarter of 1979 fell to £6.5lm. This is the lowest figure recorded since our series started in 1975 and in constant 1975 prices has a value of only £3.3lm. In constant prices, the last three quarters have been extremely low and reflect a disturbing trend of low industrial investment in the Scottish economy. In addition, the latest award represents only 7% of the total grants awarded in GB compared with over 25% of the British total in the previous quarter.

The first allocation of European regional development grants for 1980 awarded 12 Scottish projects a total of £4m. Seven of these awards go to Borders Regional Council with the remainder to Grampian Regional Council. This figure represents a considerable fall from the previous quarter when £27.3m was awarded to Scottish projects.

The ability of the European regional development grants to regenerate industry in the region is, to say the least, questionable. There is no regional policy as such offered by the EEC and without one it is improbable that Commission spending can shift away from agriculture. Further, as recently highlighted in the 'Scotsman', regional development grants are paid not to industry and local authorities but to the Treasury. As such it is unlikely that the figures quoted by the Commission actually represent net additions to the financial aids offered by the UK government. Clearly some changes are necessary in EEC regional policies. While an overall package of regional incentives would be desirable such a prospect seems unlikely given the inability of the Community to solve existing problems. In the short-term it would be advantageous for industry and local authorities to apply directly to the Commission for development grants. This would encourage firms to apply for grants instead of, as present, having to be nominated by central government. It would also ensure that monies received from the Commission were net additions to the package of incentives offered by the UK government.

Scottish unemployment increased substantially from 7.9% to 8.8% in the first quarter of 1980. The total rose to 200,124, an increase of 19,874 from the previous quarter. Unemployment rose in all regions with the exception of Highland which saw a marginal decline. Strathclyde was particularly badly hit with the unemployment rate rising from 9.6% to 10.9%, an increase of 14,878 in the actual number of persons unemployed. Undoubtedly, some of the recent major plant closures in Strathclyde are now beginning to make an impact on the unemployment figures. The Western Isles remains the unemployment blackspot with Borders, Grampian and Shetland maintaining their relatively low rates.

Once again the number of notified vacancies has fallen, this time by 1,843 to a total of 18,963. This decrease is not, however, spread consistently over all regions. In Dumfries and Galloway, Highland, Lothian, Orkney and Shetland there was an increase in notified vacancies. This was more than offset by reductions in the other regions, in particular Grampian and Strathclyde.

Table 5 Unemployment, Unemployment Rate & Vacancies Notified
By Scottish Regions, March 1980

Region	Total Unemployed*	Unemployment Rate %	Vacancies
Borders	1,453 (1,387)	3.8 (3.6)	424 (435)
Central	8,541 (7,760)	7.5 (6.8)	750 (929)
Dumfries & Galloway	4,700 (4,569)	8.7 (8.5)	364 (346)
Fife	10,674 (10,024)	8.0 (7.6)	890 (998)
Grampian	8,862 (8,468)	4.9 (4.7)	2,277 (2884)
Highlands	7,232 (7,302)	9.7 (9.8)	1,201 (773)
Lothian	23,459 (21,971)	6.9 (6.5)	3,047 (2972)
Strathclyde	119,085 (104,207)	10.9 (9.6)	8,605 (9148)
Tayside	14,311 (12,863)	8.4 (7.5)	1,103 (1299)
Western Isles	1,153 (1,098)	14.1 (13.4)	77 (98)
Orkney	444 (393)	7.0 (6.2)	40 (22)
Shetland	210 (208)	2.9 (3.0)	185 (182)
Scotland	200,124 (180,250)	8.8 (7.9)	18,963 (20806)

* Figures for December 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

The Lothian Region Structure Plan

Approved by the Secretary of State in December 1979, Lothian Region's Structure Plan is the first Scottish Structure Plan to be implemented. Nonetheless despite the ministerial stamp of approval the document contains a number of still debateable points.

Building on the Regional Report the Structure Plan contains an analysis of the main problems confronting the region. It is against this background its policies have been formulated. The region's problems are mainly economic in character and conform to the general pattern for British metropolitan areas. Thus Lothian Region (pop 755,000) dominated by Edinburgh (population 467,000) is still struggling with structural economic change. In Edinburgh these problems are allied to inner city decay and have produced population decline.

At first examination the period 1964-75 appears to have been a prosperous period for the Lothians. Total employment within the region rose from 300,766 in 1964 to 326,080 in 1975. However over this period there was substantial decline in the Primary (SIC Orders I - III), Manufacturing (IV - XIX) and the Construction (XX) sectors. Indeed the rate of decline experienced by these sectors was at about the same rate as Strathclyde. Unlike Strathclyde however this job loss was made good by a boom in office based service employment. This was particularly pronounced in the early 1970's. Nonetheless the service employment boom has had only a minimal mitigating effect for those who have lost their jobs in the other sectors. Women have tended to be the main beneficiaries from the expansion of employment in the service sector (see Employment and Unemployment). Skilled and unskilled males have been the main victims of structural decline. Moreover the increase in employment registered over the period 1964-75 was not sufficient to compensate for the increased labour force present within the region. Thus in line with the national tendency unemployment has risen.

Table 6 Employment Structure: Lothian Region 1964 and 1975

<u>Employment Category</u>	<u>1964</u>	<u>1975</u>
Primary (SIC I - III)	27,055	13,375
Manufacturing (IV - XIX)	82,992	68,068
Construction (XX)	26,785	23,272
Services (XXI - XXVII)	163,934	221,365
Total	<u>300,766</u>	<u>326,080</u>

Not surprisingly perhaps this problem is most clearly seen in Edinburgh. The capital of Scotland, Europe's third most important financial centre, a major educational centre, and one of the main attractions on the tourist circuit. Edinburgh has always had an important service role. However, at present, this sector would seem to have an overwhelming pre-eminence. In 1976 it accounted for 76% of the District's employment. Conversely manufacturing has experienced considerable decline. With the possible exception of electrical engineering the city's industrial base is not biased towards employment expanding industries. Printing, publishing and the food and drink industries, the other staples, are not likely to expand. Indeed continued employment contraction, due to technological innovation rather than reduced demand for their products, seems a certainty. The prospects for indigenously fuelled manufacturing growth are not good therefore. However it should be realised that Edinburgh's attempts to increase its manufacturing base have hardly been helped by the operation of regional policy. For long the only non-assisted area in Scotland the city, in direct contrast to its immediate neighbours, was put at a disadvantage when it came to attracting replacement manufacturing industry. This is clearly seen in the table overleaf.

Table 7 New Manufacturing Employment on Industrial Sites owned by Lothian Region and Livingston New Town 1965 - November 1976

<u>District</u>	<u>Employees</u>	<u>% of Employment Created by Origin of Firm</u>				<u>Total</u>
		<u>Scotland</u>	<u>England</u>	<u>US</u>	<u>Others</u>	
Edinburgh	3,164	58	7	35	1	100
West Lothian	4,513	52	39	8	-	100
Midlothian	2,549	61	39	-	-	100
East Lothian	418	61	20	19	-	100
Total	10,644					
Livingston	4,850	13	37	50		100

Source: *Lothian Region Structure Plan: Report of Survey*

Structural change, technological innovation, and previous housing and environmental planning policies have all combined to produce the Edinburgh variant of the standard British metropolitan problem. Though far removed from the usual city tourist routes Edinburgh has its inner city problems at Leith, Tollcross and the Southside. In addition it has a number of peripheral housing schemes, Pilton, Craigmillar, Niddrie and Westerhailes, where high levels of unemployment and social deprivation are present. On a broader front it has also experienced a shift in its manufacturing locus. Leith, Portobello, Craigmillar, Niddrie, and the eastern districts of the city proper now contain little industry. Conversely, new industrial estates at South Gyle and Sighthill have strengthened the western districts in this respect. In the city centre there has been a recent boom in office construction. This, coupled to the substantial under provision of transport facilities contributes to the production of standard British city traffic congestion.

The remainder of the region is not problem free. Midlothian District (population 85,000) is an important source of commuters; only 58% of its labour force works within the district. In addition, while it is still an important coal producing centre the prospects here are not good as the existing coal seams are likely to be worked out. On balance the recent past seems to have been quite favourable to West Lothian (population 124,000). Containing Livingston New Town and Bathgate with its BL plant this district has largely overcome the problems caused by the disappearance of the shale industry and the decline of coal mining. Viewed within a regional context however its comparative success becomes problematic. Edinburgh's recent economic performance has probably been adversely affected by the presence of Livingston New Town for example. East Lothian District (population 79,000) is a predominately agricultural area although tourism is of importance to some of its coastal towns. Nonetheless the western sector, around Musselburgh and Tranent, does have industry and it is here that the bulk of the district's unemployed are concentrated.

Faced with these problems and a forecast growth in population during the period covered by the plan the development strategy is predictable. Accordingly the plan is basically concerned with stemming Edinburgh's decline and dispensing a few crumbs of comfort to the other identified problem areas. While Livingston New Town will be allowed to grow to its designated population target and expansion encouraged at Gorebridge in Midlothian, the extent to which any of the surrounding settlements can act as a competitive magnet will be curtailed. Without exception these remaining settlements will be "consolidated, ie not allowed to grow outwith their present boundaries. This policy is predictable though probably correct on a number of grounds. Regardless of the nature of Edinburgh's problems and the current planning philosophies, development there is probably more economically efficient than further green field development elsewhere. Development in the capital does not involve the take up of agricultural land, existing land or premises within the city can be rehabilitated; and the capital already has a large

stock of social infrastructure capital.

Having said this there are a number of foreseeable problems. Ironically enough, given the above, land availability in certain parts of the city would appear to be one such problem. This seems to be the case in Eastern Edinburgh for example which includes Leith, Portobello, and Craigmillar - Niddrie. These areas all have relatively high levels of unemployment having suffered from the structural decline already noted. Yet serviced land for new industrial development is in short supply. To some extent all these areas 'suffer' from their proximity to Leith Docks. This has meant that warehousing has become well established. Warehousing, tends to be land, rather than labour intensive. While it may be unwise to debar activities such as warehousing from areas for which they exhibit a preference, a more concerted attempt at reaching employment balance ought to be made. As it is, the Plan's intentions in this respect are tentative. Bar an intention to encourage office development at Portobello and Leith, possibly develop the site of Portobello Power Station for industry, and appraise the Newcraighall site, only small amounts of land (in Leith) are allocated for industrial development.

Elsewhere, and discounting the now obligatory (and misguided) plaudits concerning small firms and their growth and survival their seems little attempt to provide new jobs in proximity to the locations which actually require them. Again land scarcity could be a constraint, although as we have noted, Edinburgh has its share of derelict land. Only at South Gyle, which is in relative proximity to Westerhailes and Sighthill, and has already enjoyed a degree of success in attracting new firms, has this criterion been met. The envisaged expansion of Edinburgh's commercial centre, if it can be achieved at all, seems only to be compatible with increased journey to work times and city centre congestion.

As the Plan notes, transport plays a vital role in any land use planning exercise. The two are interdependent. External links with the outside world are of vital importance to any programme of economic development; within the region an efficient transport network alleviates the need to have housing areas in close proximity to work places and as such provides for greater flexibility in the land use planning process. Similarly the extent to which heavy road traffic is diverted from the centre of a major tourist centre makes Edinburgh more attractive (and safer) to both tourist and native alike. As such, given the prevailing situation in Edinburgh and the Lothians, the assertion that, "there are transport problems that impede both the economic strategy and the functioning of some towns and settlement centres" is something of an understatement.

While transport and transportation has been a favourite topic in Edinburgh and the Lothians since the halcyon days of Abercrombie and Plumstead in the 1940's, little has actually been achieved. In Edinburgh, and probably the Lothians in addition, the position has considerably deteriorated. At least in the 1940's the local and suburban railway system was intact. Now it is non-existent and while the road capacity has remained fairly constant the traffic load has increased. This situation has major consequences for East-West transport within the region. Given the present orientation of the region's road network westward travellers from East Edinburgh, East Lothian, and Midlothian, cannot really avoid a time consuming traverse of Edinburgh. In the latter, city centre congestion is still a problem. Outwith the built-up areas the region's rural areas suffer from the usual 'range' of rural transport problems.

Again the Structure Plan's solutions to these problems are probably correct (bar the siting of office employment in Edinburgh's centre). However while work has actually started on Edinburgh's long awaited outer ring-road, which should improve the East-West links, transport plans often seem to have as little chance of implementation as the old style development plans. It remains to be seen if Structure Planning in combination with the Transport Policy and Programme (TPP) process will have a more beneficial effect. With the exception of Edinburgh's

buses and some roadbuilding activities the Regional Council has little control over transport matters. Instead it has to adopt an advocate's role and its exhortations to make the seemingly obvious improvements can fall on deaf central government ears. In the public transport sphere the creation of a Passenger Transport Executive (PTE) would seem an effective instrument in improving the regional situation. Certainly Glasgow has shown what can be done in this sphere.

In general, and at the time when it was prepared the plan is on the right lines. However, at the detailed level it is a little wanting and the government's changes in regional policy must surely limit the extent to which Edinburgh's non service economic base can be rehabilitated. With Livingston New Town in such close proximity, complete with Special Development Area status and a growth centre environment the Lothian planners may continue to see future development, and their strategy, go liberally west.

OUTLOOK AND APPRAISAL

With GDP in the UK likely to fall by between 1% and 3% during 1980, it would be unrealistic to expect a substantially different performance in Scotland. Output will fall, and this fall is likely to be concentrated, once more, in the manufacturing sector. At present, three main problems confront manufacturers. Firstly, the strength of sterling is limiting the ability of exporters to compete in international markets and of producers for the domestic market to resist cheap imports in home markets. Other things being equal, one might expect sterling's value to decline gradually during 1980, because of the UK's appreciably higher rate of inflation than its competitors. However, other things are unlikely to be equal. If political tension builds up in the Persian Gulf area, as seems likely, then currencies of those countries which are self-sufficient in energy will inevitably harden.

Secondly, consumers real disposable income, which grew by over 10% during 1978 and 1979 is unlikely to increase at all during 1980 and 1981. Consumer demand is therefore unlikely to be sufficiently buoyant to maintain manufacturing output. Indeed, retailers stocks were already growing rapidly in the final quarter of 1979.

Finally, high interest rates are constraining those industries which wish to invest in real assets and also limiting their enthusiasm to maintain high levels of working capital. An increased rate of bankruptcies is likely to result as firms tighten their credit arrangements.

The government took no action with respect to minimum lending rate in the budget. If may, however, be possible to effect some reduction later in the year, since it appears that monetary growth is beginning to weaken. Given the lag between changes in the money supply and changes in the rate of inflation, this would imply strongly negative real rates of interest in the latter part of 1980, an outcome which would exert downward pressure on sterling and boost domestic demand in the short-run by reducing the attractiveness of holding financial assets. Thus, conditional on the government obtaining effective control on monetary growth, it may be possible to provide some countervailing force to the recessionary pressures by the end of the year. This cannot, of course, prevent a downturn in the economy, but should bring forward the beginning of the upswing, thus making the outlook for 1981 somewhat brighter than that for the remainder of 1980.

The government have recently announced their public expenditure proposals for the period to 1984. The intention is to actually reduce the volume of public spending over the next few years. Peak reductions are expected in 1982/83, when a cut of 2% is projected. This may seem considerably less severe than the 6% fall which occurred in 1977/78, but the aggregate figure conceals a considerable shift in resources within the public sector. In particular, the housing programme, the industry, energy, trade and employment programme, the provision for net borrowing by the nationalised industries and the education programme are to bear the brunt of the cuts while spending on law and order and defence is to be increased. These projected changes have a number of interesting implications for Scotland.

Between 1979/80 and 1983/84 it is intended that government spending on regional and general industrial support in the UK be almost halved. Regional development grants are expected to fall by about 25% following the reduction in the number of localities classified as development areas, the reduction in the rate of grant available in the development areas, and the abolition of grants in the intermediate areas. Selective assistance to industry is expected to be pruned by

around 40%, from 1979/80 levels, by the use of more stringent criteria to review new applications. Provision for "future industrial support" is much reduced. This fund is intended to cover unexpected industrial developments, such as major impending closures. However, on this point the White Paper is quite clear - "There is no provision for major rescues." The National Enterprise Board is to dispose of a large proportion of its assets, and its financial allocation is to be curtailed substantially. Rolls Royce, which has a significant Scottish connection, is to be removed from the NEB and placed under the direct control of the Department of Industry. In contrast, the Scottish and Welsh Development Agencies emerge largely unscathed from the review, expenditure by the SDA being planned at around £60m for each year of the period. Expenditure on employment and training, which is largely controlled by the Manpower Services Commission will be cut by around 23% between now and 1984.

While it is perhaps somewhat difficult to envisage that these plans will overcome the political obstacles which confront them; as far as Scotland is concerned, two main implications are worth noting:

- (1) That part of assistance to industry and employment which is controlled by the Secretary of State for Scotland is not scheduled to be cut. This is quite remarkable given the drastic reductions which are intended for the UK programme.
- (2) Given that both discretionary and non-discretionary grants payable under the 1972 Industry Act, which in 1977/78 accounted for almost half of public assistance to industry in Scotland, are to be reduced substantially, the relative importance of the Scottish Development Agency as an instrument of regional policy will increase considerably. Inevitably this will lead to increased political pressure on the agency.

A second aspect of the public expenditure white paper which is of relevance to Scotland is the housing programme. In 1980/81 it is expected that £603m will be spent on housing in Scotland. By 1983/84, it is intended that this be reduced to £410m. Inevitably, this means that new housing starts by local authorities, already at a record low level, will decline even further. Additional recessionary pressures on the construction industry will result. In fact, housing will bear the brunt of public expenditure cuts, total expenditure on other programmes for which the Secretary of State has responsibility being expected to fall by only £58m between 1980/81 and 1983/84.

This section of the commentary normally contains forecasts of total unemployment (seasonally adjusted) in Scotland. A discussion of the accuracy of these forecasts is contained in a note (see p 36) by D N F Bell in this issue. In this issue it has been decided to extend the range of forecasts to include more detailed projections for the manufacturing sector both in Scotland and the UK. These are derived from a quarterly labour market model similar in some respects to that outlined in "Regional Output, Employment and Unemployment Fluctuations"*. The major differences from the specifications outlined in that paper are the use of quarterly data and respecification of the lag structures. The model predicts manufacturing output in Scotland along with employment and unemployment in manufacturing for both Scotland and the UK. Forecasts for UK manufacturing output are at present derived from consideration of the predictions of a number of national forecasting organisations. The first set of forecasts which use this model are shown in Table 7. These cover the period up to the first quarter 1981.

* Fraser of Allander Discussion Paper No 10.

Table 7 Quarterly Forecasts for Manufacturing : Scotland and the UK

		QMU	QMS	EMU	EMS	UMU	UMS
1979	Q3	103.1	101.4	7287.7	601.0	334.1	40.0
1979	Q4	103.8	101.3	7386.0	606.6	323.4	41.6
1980	Q1	98.3	98.4	7315.6	600.7	317.4	43.6
1980	Q2	98.5	97.1	7289.4	596.6	324.8	48.1
1980	Q3	97.3	95.9	7319.3	596.1	331.1	51.8
1980	Q4	96.8	94.9	7255.8	589.7	374.4	57.0

where: QMU = UK manufacturing output
 QMS = Scottish manufacturing output
 EMU = UK manufacturing employment
 EMS = Scottish manufacturing employment
 UMU = UK manufacturing unemployment
 UMS = Scottish manufacturing unemployment

The model suggests that, with UK manufacturing output likely to fall by 5% between 1979 Q (quarter) 4 and 1980 Q4, the corresponding decline in Scottish manufacturing production will be 5.7%. Employment, in manufacturing, will, in consequence, increase; by 57,000 in the UK as a whole and by 13,000 in Scotland. Inevitably, the reduction in employment will cause an increase in unemployment associated with manufacturing. In Scotland, this should be of the order of 15,500, while in the UK, the increase is only 30,000. In the first quarter of 1981, however, a more rapid increase in UK unemployment is expected, with a further 19,000 joining the register. Generally, the outlook for the first quarter of 1981 is for a continuation of the recessionary trend with further falls in manufacturing output and employment in Scotland and the UK.

As stated above, it would be rash to suggest that the Scottish economy is not entering a recessionary period. Nevertheless, there have been some moderately hopeful signs recently, such as the optimism of CBI members in Scotland with respect to export prospects, which may moderate the decline in output. The forecasts outlined above are certainly not as pessimistic as some, though they certainly do not present a very rosy picture of the short-term development of the Scottish economy. Total unemployment (seasonally adjusted) is likely to rise to 2000,000 by October, which would imply an actual figure of over 210,000 then.

ERRATA

Table 7 p 30

		QMU	QMS	EMU	EMS	UMU	UMS
1980	Q4	97.8	95.6	7328.6	593.7	353.5	57.1
1981	Q1	96.8	94.9	7255.8	589.7	374.4	57.0

Paragraph 1, line 4 for 'increase' read "decrease"

Paragraph 2, last line "2000,000" read "200,000"