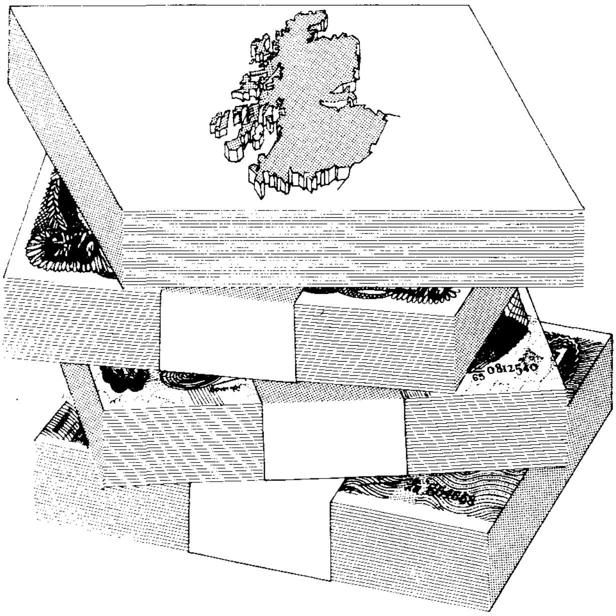
INDICATORS OF ECONOMIC ACTIVITY

PRODUCTION

The Scottish Economy

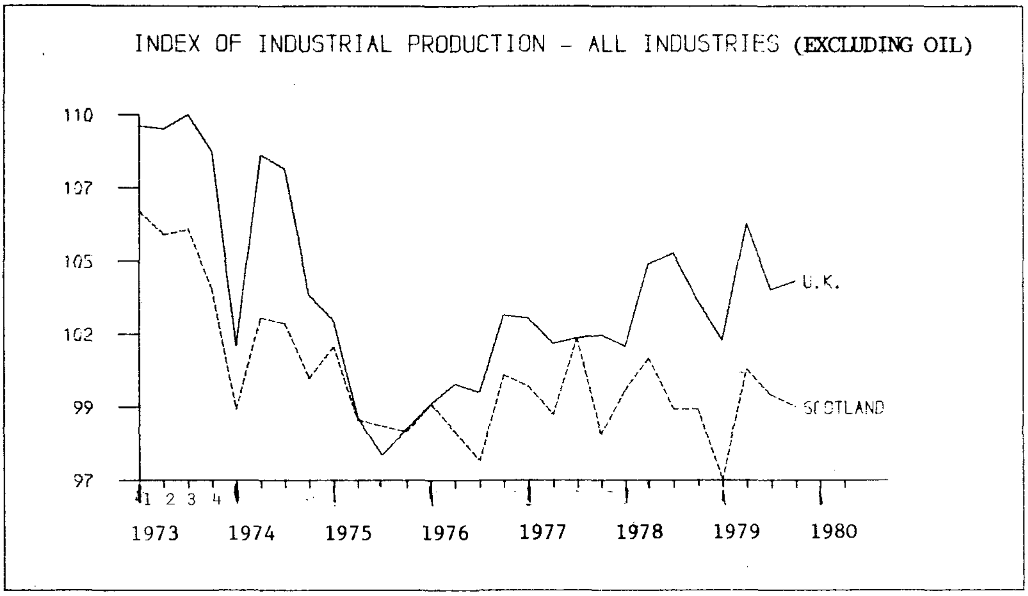


The index of industrial production* in Scotland for the fourth quarter of 1979 fell by 0.4%, bringing the level of real output in Scotland back to 1975 levels.** For the whole of the United Kingdom, output increased by 0.3% over the same period, indicating, once again, the relative decline in Scotland's industrial performance. The results of the third quarter, which indicated a marginal improvement in Scotland's relative performance, have not been sustained. This view is reinforced by examination of the output figures for 1979 as a whole, which show output to have declined by 0.7% in Scotland during the year with the UK, in contrast, experiencing a net increase of 0.2%.

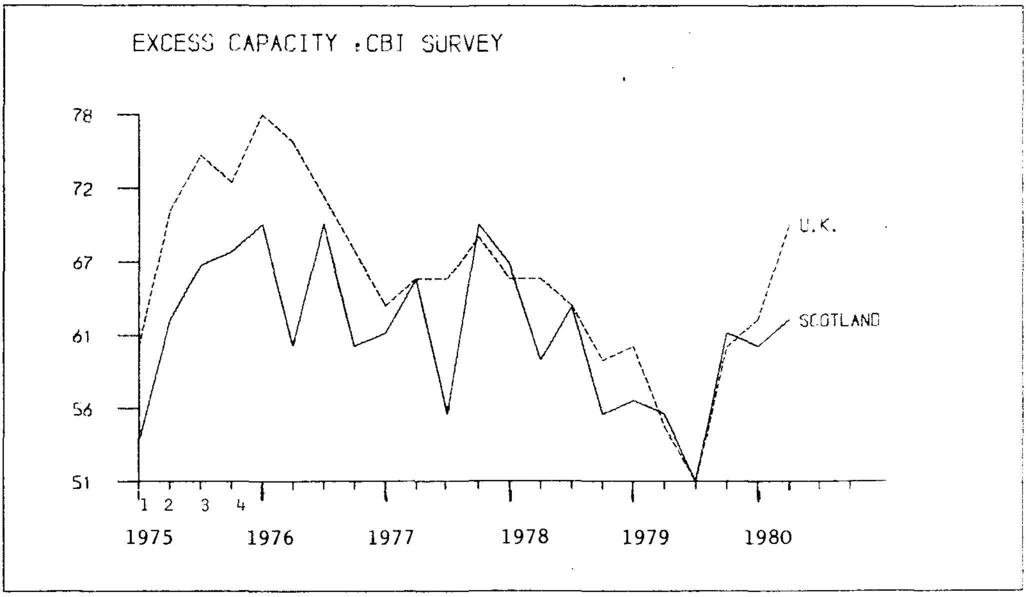
Responses to the April 1980 CBI survey will have been influenced by the dispute in the steel industry, which ended just after the start of the survey period, The CBI report shows business confidence still to be at a low ebb: output continued to fall over the first quarter of 1980, and is expected by respondents to remain at a depressed level. The decline in production has been confirmed for the UK as a whole, manufacturing production falling by 8% in the twelve months to May 1980. A balance of 12% of CBI respondents in both quarters expect declining orders. Exports, however, have improved over the first quarter, but this must be seen against the backdrop of extremely low 1979 order levels. The outlook for exports over the second quarter shows a balance of 7% of firms expecting increased orders. Buoyant export intentions largely explain the increase in production levels expected by the engineering industry. Consistent with the overall depressed state of the economy, a balance of 28% of CBI respondents expect a fall in employment in the second quarter of this year, with a balance of 24% reporting a fall in the first quarter.

* Unless otherwise stated indices of production are seasonally adjusted.

** Excludes MLH 104 (oil and gas exploration and extraction).



Source: Scottish Economic Planning Department



Source: CBI Industrial Trends Survey

INVESTMENT

Investment intentions continue to be extremely pessimistic: the CBI report the greatest negative balance in authorised capital expenditure for four and a half years. A net 14% of CBI respondents expect to reduce stocks in the second quarter, and a balance of 21% to reduce general capital expenditure. For buildings, a net 29% expect to decrease capital expenditure. Capacity utilisation remains unsatisfactory, with 63% of firms reporting levels of output below capacity. Depressed demand, and the cost and availability of finance, are the major factors explaining poor investment performance.

OVERTIME

In Scotland and in Great Britain there was a sharp fall in the hours of overtime worked, and in the number of workers working overtime for the first quarter of 1980 compared to the previous quarter and the corresponding quarter of last year. From the fourth quarter of 1974 to the first quarter of 1980 the percentage of operatives on overtime fell by 5.2% and 2.1% in Scotland and Great Britain, respectively. Whilst overtime working normally decreases in the first quarter of the year, the figures do show a decline over the corresponding quarter of 1979. This is consistent with reports of falling output and employment as described in the CBI survey.

BANK ADVANCES

Total advances made by Scottish Clearing Banks to UK residents as at mid-May 1980 were £148m (5%) higher than at mid-February 1980 and £524m (19%) higher than at mid-May 1979. In the quarter to mid-May the increase in advances was largely absorbed by the food, drink and tobacco (£20m), personal (£43m) agricultural (£37m), transport and communications (£18m) and retail distribution (£23m) sectors. Advances to the chemicals, vehicles, mining and quarrying industries actually fell over the last quarter. Advances to the financial sector also fell, by £22m (13%) over the year. On the whole, bank advances continue to increase, although there are signs that the government's attempts to control the money supply is taking some effect, particularly in the financial sector.

Taken together the indicators point to a decline in output and employment during the first quarter of 1980. Further decline in economic activity is expected to continue to the end of the year.

INDUSTRIAL PERFORMANCE

AGRICULTURE

EEC Agricultural Support Prices for 1980/81 have been set. Price increases range from 5-7%, and are enhanced in the UK by green pound devaluations. UK prices are now a little above the common EEC price level. The increase is likely to add 1% to the retail price index.

The proposed starting date of 15 July 1980 for an EEC Sheepmeat regime is felt to be optimistic, given that agreement still has to be reached on the implementation of the regime, and that the question of New Zealand lamb exports has yet to be decided. Included in proposals is the setting up of a Basic Price for the EEC, and this is expected to raise UK prices considerably.

The EEC is to pay a premium of £12.37 on all suckler cows. The exclusion of part-time farmers and milk producers means that almost all crofters will not be eligible for the subsidy.

The Scottish Seed Potato Association intends seeking Development Council Status. It would then have the authority to impose a levy on producers and provide funds for promotional purposes. UK consumption of potatoes in 1979 was 5.3m tonnes, compared with 4.9m tonnes in 1978.

The total value of Scottish farm output was £903m in 1979, an increase of 11% on the previous year. However, higher prices have boosted the total value figure, while there has been a reduction in the volume of livestock. There was a small reduction in beef cow numbers - 1% down on the previous year, and dairy cow numbers have also fallen. Cropping land has been maintained at 1978 levels but there has been a change in distrubution - reduced areas of oats, fodder crops and potatoes, and increases in the areas of wheat and barley.

FISHING

A deadline of 1 January 1981 has been set for the Common Fisheries Policy. It has been stated that the CFP should conform with the Hague agreement of 1976, in which the preferential rights of Scottish inshore fishermen were acknowledged.

The fishing industry in Scotland and the rest of the UK remains in depression. Representatives of UK fishermen have decided to appeal to the Government for short term aid. The president of the Scottish Fishermen's Federation, has stated that a reduction in interest charges to 7.5% would be one of the best forms of temporary aid. With interest charges varying between 11% and 20% there is little enthusiasm to expand the fleet. Rising fuel costs, uneconomic quayside prices and high levels of imported fish are also causing considerable hardship. The plight of fishermen is highlighted by men at Stornoway threatening to defy a ban on herring fishing in order to supplement their declining income from prawn fishing.

Landings in Scotland in the first quarter of 1980 were 58,329 tonnes, compared with 56,569 tonnes in the same period in 1979. The value of the catch is up by 6% on last year.

OIL AND GAS

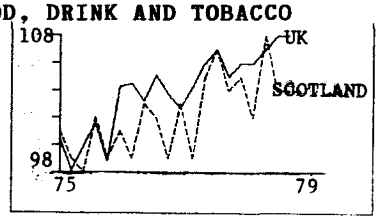
Output from 14 producing North Sea oil fields averaged 1.5m barrels per day in April. Though well above the production figure for the equivalent month in 1979, this was actually 0.1m barrels per day less than had been produced in March 1980. This particular drop was caused primarily by the combined effects of a two-day closure of the Forties field for routine maintenance, a reduction in Piper output for field evaluation and a fall in Thistle production because of a damaged pipeline. A more serious setback to the UK's long-term production prospects was the announcement during the quarter of unexpected geological difficulties in the Ninian field. This could reduce UK output by up to 53,000 barrels per day over the next few years. It is still expected that the UK will become a net exporter of oil later this year, but forecasts of the amount available for export are being continually reduced as new difficulties, such as those in the Ninian field, are encountered.

Perhaps because of setbacks in existing fields, the number of blocks being offered in the 7th round of exploration licensing is somewhat larger than had been anticipated. Around 100 blocks will be offered, in the expectation of licensing at least 90. Blocks are on offer in most UK offshore areas including the primarily gas producing southern North Sea sector. Announced gas price increases are expected to make this area more attractive for exploration activity than has been the case hitherto. A novel feature of this round is that 20 blocks can be nominated by companies in the successful northern North Sea sector. Expectation of enthusiasm in these blocks is demonstrated by the Government's requirement that it be paid an initial £5million 'good faith' premium by interested parties.

The Government has, as suggested in the last commentary, given its full support to proposals for a North Sea gas-gathering pipeline. Gas and petrochemical feedstocks worth at least £30billion will be landed at St Fergus in the Grampian region. It is suggested that associated petrochemical capacity needed to process the additional materials be located at Nigg Bay in the Cromarty Firth. The scheme will require approximately 600 miles of pipeline and the British Steel Corporation have already indicated their interest in tendering for a major proportion of the work.

At the OPEC meeting in June it was agreed to raise oil prices by an average of about $2 per barrel from 1 July. The two-tier price system continues with ceiling prices of $32 per barrel for Arabian crude and $37 per barrel for crude of other OPEC members. Some members, notably Libya and Iran, had already been attempting to sell crude at prices above the new ceiling and the meeting agreed that there were 'no guarantees' that actual prices might not rise above $37 per barrel. British crude was already selling at over $36 per barrel prior to the OPEC announcement.

FOOD, DRINK AND TOBACCO



The Index of Industrial Production for Scotland shows that output has stabilised at an index level of 104 (1975=100) in the fourth quarter of 1979. This performance is similar to that of the UK.

In the April CBI Industrial Trends Survey 30% of respondents were less optimistic about the general business situation than they were four months previously. Even more indicative of the depressing position of the sector is that the percentage of firms operating below satisfactory capacity has increased to 54%. As in the previous quarter the inability to obtain orders is the most important factor limiting output.

WHISKY

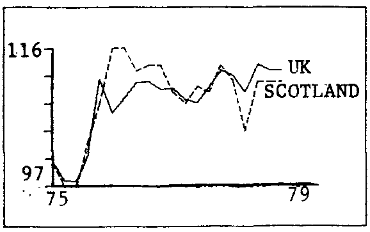
Whisky production in the 1st quarter of 1980 was 120,953 thousand litres of pure alchohol, equivalent to 46,610 thousand proof gallons. Production fell from the high level of the previous quarter, but was 6,900 (17,905 litres) higher than in the same quarter of 1979.

Exports for the first quarter were 65,835 thousand litres (25,370 thousand proof gallons) worth £191m. Exports of bulk malt again increased and exports of bottled malt have picked up, but exports of blends have dropped.

At present the whisky industry faces an unprecedented fall in demand, especially in export markets. Distillers Company, which controls 50% of the export market has been forced to put staff on short time. The fall in demand is due in large measure to American distributors buying stocks early in the year ahead of price increases and reducing purchases until stocks were depleted.

It has also been revealed that there are 434 trade barriers against Scotch whisky throughout the world. This increase of 86 from last year reflects the world recession, and the consequent pressure to restrict imports to preserve domestic output and employment. Denmark, in defiance of the European Court of Justice, intends to introduce a tax system which will discriminate against Scotch adding £1 on to a bottle of whisky.

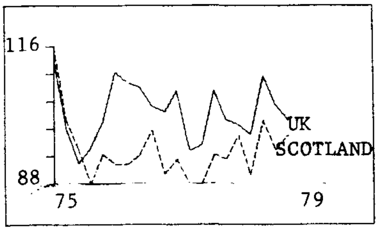
CHEMICALS



Output of chemicals, coal and petroleum products stabilised at an index level of 116 (1975=100) in the fourth quarter of 1979, a level of production still below that of the UK. The CBI Industrial Trends Survey shows that on balance 38% of the responding firms were less optimistic about the general business situation than four months previously. A lack of orders or sales is still the main limiting factor on output.

The major recent development in this sector has been the proposal for a North Sea gas-gathering pipeline network which could make the Cromarty Firth the main centre for petrochemical expansion in Europe. The project which is fully backed by the Government could collect gas reserves equivalent to between 7 and 12 years of UK supply. At present much of this gas is flared off at the platforms to no useful purpose.

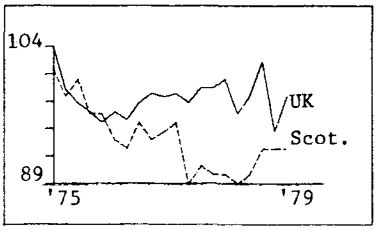
METAL MANUFACTURE



The 3% rise in output in the fourth quarter of 1979 is the largest of those industries comprising the manufacturing sector. This is in contrast to the performance of this industry in the UK where output has fallen by 3%. This relatively better performance can be explained by gradual increase of production at BSC's Ravenscraig plant.

The April CBI Industrial Trends Survey paints a particularly gloomy picture. On balance 58% of the respondents were less optimistic about the general business situation in the industry than four months previously, while a depressing 86% said that they were operating below satisfactory capacity. A lack of orders is again the main limiting factor on output.

ENGINEERING



Engineering, like other industries in the manuacturing sector stabilised its output in the fourth quarter of 1979. However, within the Engineering sector Electrical Engieering experienced an 11% increase in output while Mechanical and Instrument Engineering suffered an 8% fall. This behaviour is in complete contrast to the third quarter where the opposite trends occurred.

The CBI Industrial Trends Survey for April shows surprisingly, considering the overvalued state of sterling, that on balance 13% of the respondents were more optimistic about their export prospects than the quarter before. However 63% were still operating below satisfactory capacity.

Vickers and Rolls Royce recently announced unexpected plans to merge. This is generally believed to be a symptom of the current weakness of both companies. The NEB's 50% stake in Ferranti has been offered for sale on the condition that no single company buys the whole stake during the two year period after the sale. Scottish employees feared a takeover by GEC would lead to rationalisation and loss of jobs.

A number of redundancies have recently been announced reflecting the particularly depressed position of the Engineering sector: 200 jobs by GKN in Hillington, 130 jobs by Redhurst Holdings, 1,325 jobs by Talbot in Linwood, 140 jobs by Babcock Power in Dumbarton, 900 jobs by the Weir Group, 1,700 jobs by BSR in East Kilbride and 190 jobs by Cummins Engine Co at Shotts. Almost all these redundancies are put down to a lack of orders, competition from low-priced imports due to the high exchange rate, and the high interest rate, all factors which appear to be a direct consequence of current Government policy.

SHIPBUILDING AND VEHICLES

Leading overseas shipbuilders in Japan, USA and West Germany expect a gradual recovery in the industry by the mid-1980's. Future orders are likely to come from Third World countries, and from the replacement of Western fleets. High value specialist ships are expected to be an area of growing demand, although conventional shipbuilding will continue to be important.

With the Shell UK order for three coastal tankers (worth £337.6m), British Shipbuilders have achieved their 45 order target three months ahead of schedule. This target, however, is sufficient to maintain only the modernised 'core' yards during the present depression, and other yards still face reductions in workforce numbers. It has been decided that Robb Caledon, Dundee, will shed 600 workers, and BS hopes that this will be achieved mainly by voluntary redundancy.

Materials shortages, caused by the steel strike, and the non-appearance of public sector orders for naval vessels, may lead to workers in seven or eight key yards, being put onto short time. This could be avoided in some cases - Lower Clyde yards for example - if there is an inter-yard transfer of work, or if there is sufficient repair work.

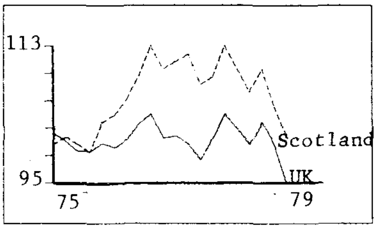
Ailsa Shipping, of Ayrshire, have won a £9m contract to build a liquid gas tanker. This is a breakthrough into a specialised and growing market. Govan has broken into the important Chinese market with a recent order for two 66,000 tonne bulk carriers.

Leyland Vehicles plans to invest £175m over the next few years in the reorganisation of its two Scottish plants, Albion and Bathgate. These plans are essential if Leyland is to be competitive.

An order for the new Jetstream aircraft placed by the RAF, will create up to 700 new jobs at Prestwick. The order was going to the USA until the intervention of the Scottish Office.

The TKM group has signed an option for Stonefield Vehicles, but should they decide not to take up the option Stonefield must again face an uncertain future.

TEXTILES, LEATHER AND CLOTHING



The textile industry is in a particularly gloomy situation. Betwen the third and fourth quarters of 1979 output fell by 4%. Not only was this the only industry in the manufacturing sector to experience a fall in output, but the index is at its lowest level since 1975. This downward trend is unlikely to be reversed unless significant changes occur in Government policy.

The CBI Industrial Trends Survey for April similarly reflects a pessimistic picture. On balance 31% of the responding firms were less optimistic about the general business situation in the industry while 67% were operating below satisfactory capacity. A lack of sales is reported as the main factor limiting output which in turn is a consequence of foreign competition from cheap imports due to the overvalued pound.

On the job front there has been mixed news. Tay Textiles in Dundee are going to lose 270 jobs with the closure of a spinning mill and a weaving factory and the carpet manufacturer James Meikle and Co has gone into liquidation with the likely loss of 300 jobs. However the specialist knitwear firm Dawson International are planning a major expansion at Bonnyrigg, Midlothian with 125 new jobs while 44 jobs are expected from the £500,000 extension to Jaeger men's tailoring factory in Campbeltown, a locality of particularly high unemployment.

BRICKS, POTTERY, GLASS AND CEMENT

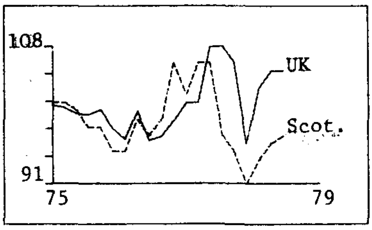
The Scottish Index of Industrial production shows that this industry rose by 13% to its highest level since the first quarter of 1976. This rise in output is in complete contrast to the UK experience. It would be very surprising if this upwards trend continued especially considering this sector's close association with the Construction industry.

PAPER, PRINTING AND PUBLISHING

Output fell by 1% between the third and fourth quarters of 1979. Although still below the UK level the Scottish sector is following a similar downward trend. There are few reasons to believe that this downward trend will be reversed, especially given the expected closure of the Corpach pulp mill.

Although Riddochs of Rothiemay Ltd have announced plans to modernise and expand its sawmill at Fort William securing 160 jobs and creating 30 new jobs this will not have a major impact on the unemployment situation in the area.

CONSTRUCTION



Production rose by 1% between the third and fourth quarters of 1979. This reflects increased activity in housing and industrial work for the private sector. However, with the recession now cutting more deeply into industry the upward trend experienced in 1979 is very likely to be reversed.

The Building and Civil Engineering economic development committees recently stated that they expect a widespread and continuing decline in their workload for at least the next three years.

PLATFORMS

UIE at Clydebank launched a £15million oilrig for Saipem AG of Italy on schedule and immediately began work on a new rig order worth £16 - £20million for Perforciones Marinas de Golfo (Mexico). This new order is expected to keep the yard, whose workforce has been trimmed by UIE from 980 to 740, fully occupied until July 1981.

It is however expected that UIE will fail to obtain the contract for the Brae platform. Clear favourite for this order is McDermott of Ardesier.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 below gives the estimated number of employees in employment in Scotland and England & Wales in the four quarters to December 1979.

Table 1 EMPLOYEES IN EMPLOYMENT: SCOTLAND, ENGLAND & WALES (000)

SCOTLAND	**TOTAL**	**MALES**	**FEMALES**
March 1979	2,048	1,177	870
June 1979	2,077	1,188	889
Sept 1979	2,078	1,188	890
Dec 1979	2,054	1,174	881
ENGLAND & WALES			
March 1979	20,083	11,803	8,280
June 1979	20,232	11,848	8,384
Sept 1979	20,277	11,901	8,376
Dec 1979	20,223	11,803	8,420

Source: Department of Employment Gazette

Employment in Scotland fell sharply in the fourth quarter of 1979, being 24,000 less in December than in September. Both male and female employment fell during the period. Some of the decrease in employment can be attributed to seasonal factors, but the number employed in December 1979 was some 13,000 less than in December 1978 and only 6,000 more than in March 1979 which was a particularly bad quarter because of the adverse industrial and climatic conditions during winter 1978/79.

Employment in England and Wales also fell during the quarter, though much less sharply and only in males with female employment actually increasing over the period.

Table 2 shows the broad sectoral breakdown of Scottish employment in December 1979.

Table 2 EMPLOYMENT IN SCOTLAND BY SECTOR, DECEMBER 1979

SECTOR	**NO EMPLOYED (000)**	**CHANGE IN NO EMPLOYED SEPT '79 - DEC '79 (000)**
Agriculture, Fishing & Forestry	47	- 2
Manufacturing Construction & Utilities	590	- 8
Utilties	229	- 4
Services	1,188	-10
TOTAL	2,054	-24

Source: Department of Employment Gazette

Employment in every sector fell between September and December, with services experiencing the largest absolute fall and manufacturing the largest relative fall. The reduction of employment in construction and services can be partly attributed to the shedding of seasonal labour: it was noted in the January Commentary that both these sectors significantly increased their employment in the second quarter of 1979 in anticipation of their summer peaks of activity. The fall in manufacturing employment cannot be so readily accounted for by seasonal factors; indeed, employment in this sector fell steadily throughout 1979 and was 21,000 less in December 1979 than it had been in December 1978. This continuous erosion of Scotland's manufacturing base is extremely serious and has negative multiplier ramifications throughout the Scottish economy.

Unemployment in Scotland in June 1980 stood at 223,150 or 9.9% of all employees, thus 26,804 more persons were registered as unemployed in June than had been in May. To a large extent the June figure, as always, reflects the number of school leavers who join the register as unemployed in that month: the number of these increased by 23,621 between May and June. In current conditions, as is borne out by last year's experience, there is no reason to believe that large numbers of these persons will find employment quickly.

Seasonally adjusted unemployment (excluding school leavers) in June was 198,800, which was 4,700 higher than the equivalent figure in May. Scotland's unemployment rate remained 42% higher than that of the UK as a whole in June, as in May. It does not appear at this stage, therefore, that Scottish labour market is worsening **relative** to that of the rest of the UK as has happened frequently in previous recessions. This is small comfort however, because of the **absolute** deterioration in the labour market throughout the country.

The latest available figures for unemployment by occupations in Scotland are for December 1979 and these are given in Table 3 overleaf.

TABLE 3 UNEMPLOYMENT BY OCCUPATION IN SCOTLAND: DECEMBER 1979

OCCUPATION	UNEMPLOYED			UNEMPLOYMENT/ VACANCIES BY OCCUPATION
	MALE	FEMALE	TOTAL	
Managerial & Prof	5,468	4,721	10,189	4.9
Clerical & Related	5,485	16,887	22,372	9.2
Craft & Similar	2,696	9,030	11,726	6.0
General Labourers	53,828	12,423	66,251	51.1
Other Manual	27,263	12,452	39,715	6.0
TOTAL	111,972	57,778	169,750	8.8

Source: Department of Employment Gazette

The last time this table was given in the Commentary (October 1979), it referred to June 1979. Comparing the results, unemployment in every occupational category was worse in December 1979 than it had been in June. Similarly, the unemployment/vacancies ratios were higher across the board in December, with the overall ratio rising from 6.3 in June to 8.8. The total ratio deteriorated further in the first half of 1980 to 12.0 in June 1980.

Table 4 shows the number of persons covered by special employment and training schemes in Scotland in May 1980. The changes since October 1979 (the last time the figures were included in the Commentary) are also included.

As the table shows, in spite of the higher unemployment in May, the number of persons covered by special schemes fell significantly from October 1979. In fact, the extent of the fall is exaggerated by a change in the definition of persons covered by the Temporary Short-Term Working Compensation scheme. The number of persons covered by this scheme was probably approximately the same in May 1980 as it had been in October 1979. Remaining reductions in persons covered reflect the government's policy of cutting back on employment aid. Whether the government will continue to reduce employment assistance in the face of expected continuing rises in unemployment remains to be seen.

TABLE 4 SPECIAL EMPLOYMENT AND TRAINING MEASURES IN SCOTLAND, MAY 1980

MEASURE	NO OF PERSONS COVERED	CHANGES IN PERSONS COVERED OCT 79 - MAY 1980
Temporary Short-Time Working Compensation	10,290	- 9,610
Temporary Employment Subsidy	0	- 1,400
Job Release Scheme	5,350	+ 550
Job Introduction Scheme	0	- 12
Youth Opportunities Programme	14,600	+ 600
Community Industries	1,390	+ 62
Special Temporary Employment Programme	2,300	0
Training Places Supported in Industry	700	- 1,779
Small Firms Employment Subsidy	4,900	- 7,500
TOTAL	39,530	-19,089

Source: Department of employment

REGIONAL REVIEW

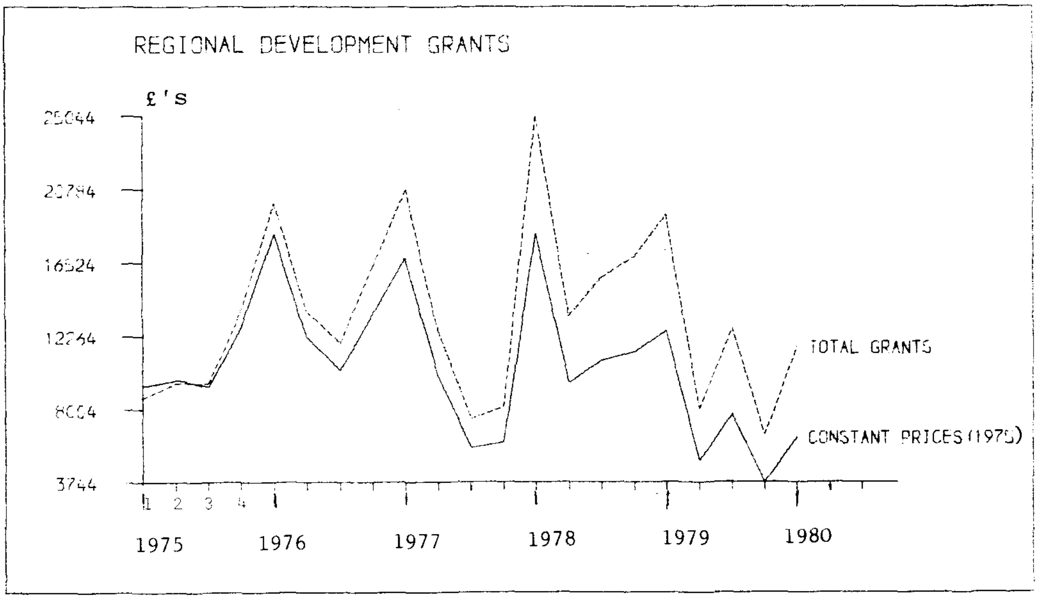
UNEMPLOYMENT AND VACANCIES

Scottish unemployment rose to a massive 223,150 in the second quarter of 1980, an unemployment rate of 9.9%. Particularly badly hit were Fife and Strathclyde. In Strathclyde an increase of 14,609 occurred, while in Fife the unemployment rate rose from 8.0% to 9.8%. Highland and Orkney, against the Scottish trend, showed appreciable declines in their unemployment rates, probably as a result of seasonal factors. However in absolute terms this represents a decrease of 447 persons, a drop in the Scottish ocean of unemployed. While much of the increase is due to school leavers the underlying trend is distinctly upward.

The number of notified vacancies in June was 19,371, an increase of 408 over the previous quarter. However, compared with June 1979 when there were 25,861 vacancies the picture is gloomy. The increase was not spread evenly and may be attributed to increases in Lothian, Highland and Grampian, areas most affected by the tourist trade. In predominantly industrial regions such as Strathclyde, Tayside, Fife and Central vacancies declined.

REGIONAL DEVELOPMENT GRANTS

? The level of regional development fund grants (over £25,000) rose to £11.68m in the first quarter of 1979. This is a substantial increase from the previous quarter when only £6.51m was paid. In constant 1975 prices the amount received in the first quarter is £6.4m and is appreciably below payments in previous years.



Source: British Business

As highlighted in this quarter's special article, doubts must be expressed about the geographic and sectoral distribution of these grants. Payments in 1980 reinforce these arguments with British Steel operations (centred on Motherwell) attracting £2.62m and oil and chemical companies (centred on Grangemouth) a further £1.66m

The second round for 1980 of European Regional Development Fund grants allocated £10.4m to Scotland out of the UK allocation of £34.9m. Major beneficiaries were the Scottish Telecommunications Board who received £4.2m and Strathclyde Regional Council who received £3.2m in respect of the recently opened final stage of the Monkland Motorway in Glasgow.

Last quarter this review questioned whether figures quoted by the Commission represented net additions to the financial aids offered by the UK government. This view is borne out by the statement that £1.2m of aid approved by the Commission is to be retained by the government. As the companies concerned have already received national regional aid, the government feel Community receipts should be appropriated as a contribution towards its expenditure on regional policy.

Such a view is nonsensical. Monies received from the EEC should not be used to finance British regional policy but should represent a net addition.

UNEMPLOYMENT, UNEMPLOYMENT RATE AND VACANCIES NOTIFIED BY SCOTTISH REGIONS, JUNE 1980*

	TOTAL UNEMPLOYMENT	UNEMPLOYMENT RATE %	VACANCIES
Borders	1,561 (1,453)	4.0 (3.8)	346 (424)
Central	10,053 (8,541)	8.8 (7.5)	642 (750)
Dumfries & Galloway	5,106 (4,700)	9.5 (8.7)	327 (364)
Fife	13,030 (10,674)	9.8 (8.0)	774 (890)
Grampian	9,484 (8,862)	5.3 (4.9)	2,551 (2,277)
Highland	6,792 (7,232)	9.1 (9.7)	1,356 (1,201)
Lothian	26,027 (23,459)	7.7 (6.9)	3,456 (3,047)
Strathclyde	133,694 (119,085)	12.3 (10.9)	8,541 (8,605)
Tayside	15,609 (14,311)	9.1 (8.4)	1,031 (1,103)
Western Isles	1,121 (1,153)	13.7 (14.1)	122 (77)
Orkney	407 (444)	6.5 (7.0)	25 (40)
Shetland	266 (210)	3.7 (2.9)	200 (185)
SCOTLAND	**223,150 (200,124)**	**9.9 (8.8)**	**19,371 (18,963)**

* Figures for March 1980 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 HIGHLAND REGION STRUCTURE PLAN

Of all the mainland regional authority areas, Highland Region experienced the most radical change during the 1970's. Due mainly to its proximity to the North Sea oilfields the regional economy and the regional population both exhibited a positive dynamism that was largely absent from the rest of Scotland.

TABLE 1 HIGHLAND REGION: POPULATION

YEAR	POPULATION
1951	161,000
1961	162,900
1971	170,300
1974	178,300
1977	189,800

Source: Highland Regional Council: Structure Plan

TABLE 2 HIGHLAND REGION: ESTIMATED NUMBERS IN EMPLOYMENT BY SECTOR 1971-78

Sector	1971	1978
Primary	8,200	7,500
Oil Related	-	6,000
Manufacturing	8,000	8,800
Services and Construction	51,000	58,000
TOTAL	67,200	80,300
Males	45,100	53,500
Females	22,100	26,800

Source: Highland Regional Council: Structure Plan

As can be seen from the tables above, population increased considerably between 1971 and 1978 mainly as a result of immigration associated with North Sea oil developments. The influence of oil, and oil related developments on the labour force during the period are clearly illustrated in Table 2.

Nonetheless despite these signs of a new prosperity the region is not without its problems. Given the size of the region the diversity and extent of these is not surprising. Occupying an area in excess of that of Wales, sparsely populated, and with much of the land being of only marginal quality the region is saddled with all the "classic" problems of rural areas, unemployment, emigration from marginal settlements, and a collapsing settlement structure. Elsewhere, the more heavily populated areas, Inverness, Nairn and Easter Ross, Wick and Thurso and Fort William are dependent on a narrow range of economic activities. And, despite the emergence of the offshore oil industry and its spin-off activities there is considerable uncertainty about its medium-term future. Historically the Highland economy has been characterised by a dependence on "boom or bust" activities which have ultimately disastrous consequences. Given the nature of the oil industry, its projected life span, and the absence of a large manufacturing or service base capable of self sustaining growth in those areas where it has become established, it would be easy to place the present developments within such a scenario.

It is with these problems that the Structure Plan concerns itself. Unfortunately however such is the range and nature of the problems that the Structure Plan will be of little consequence. Certainly, were it allowed to be fully implemented it is probable that in some respects present day problems would be aggravated.

In keeping with the established tradition the Plan's aims and policies are vague. As usual a firm commitment is made to provide a high level of employment within the region. In so far as the plan has an overriding bias this is probably it. "The key issue in the Highland Region is not the scarcity of land but of employment". (para 192)

As indicated in a previous Regional Review the extent to which a local authority can influence employment creation is limited. Essentially a regional authority's role extends to assessing the amount of employment needed to its stated labour market aims; converting this into appropriate land requirements; and then allocating these areas via the planning process to those localities identified as requiring an infusion of employment. Having acquired the necessary land, it may provide services and advance factories. It will certainly indulge in promotional campaigns aimed at luring any footloose industry into its area. Further, given that housing and environmental facility provision are now perceived to be a component part of the industrial, or employment attracting process, it may also undertake complementary programmes in these respects.

Clearly therefore the decision as to where to allocate available resources for employment creation will be of some importance. Given the Highland experience three broad alternatives exist. Resources could be expended:-

1. In those areas which have suffered in the past as a result of a lack of suitable employment, ie the West Coast and the remoter rural regions, to the exclusion of all other areas.

2. In those areas for which industry has shown a clear locational preference ie the Nairn - Inverness - and Easter Ross triangle to the exclusion of other areas.

3. In a less concentrated fashion in all areas.

Given the probable political unpopularity of adopting for either alternative 1 or 2 the Highland Region cunningly prompt for alternative 3, the middle way.

> "The Regional Council selected a middle course policy which will divide the available resources between bolstering the viable rural communities and the development of major industry in those limited areas which offer special facilities." (para 196)

However in so doing the Regional Authorities, may through their own Structure exacerbate the very problems which the Structure Plan is supposed to solve. The planners seem fully aware that the region is susceptable to windfall change owing to its very narrowly based economy. Nonetheless, in the medium term over the period which the plan is supposed to cover, the oil industry has reasonably good prospects. Accordingly there would appear to be no shortage of employment generating projects associated with this sector on the East coast. Therein lies the problems. For as long as these areas continue to prosper the outlying rural areas will continue to be drained of manpower in search of employment. Accordingly the problems of the rural areas will continue and probably worsen.

Nonetheless the Plan does contain a number of commendable provisions. However given the extent to which Regional Authorities can actually control economic progress, particularly when this is seen as being important to the wider national interest, these may prove to be of little consequence. Again basing a plan around these, remembering the region's propensity for windfall change and the flexibility of approach which this necessitates, may ultimately be unwise. In this respect the decision to limit the plan's provisions to the existant population, and limiting the settlement of large numbers of immigrants can be praised and then questioned. Instead of concentrating social infrastructure and facility investment in settlements which appear to be more viable as population centres in the medium term, 'the key village', to the exclusion of all other settlements a less extreme policy is recommended. Henceforth to offset the tendencies to rural centralisation which such policies have in the past produced, settlements will not be considered as discrete entities but as part of a functional grouping. Investment will be ordered accordingly. Thus, to take an example, within a defined area one settlement might be designated as the service centre for that area; another village might contain the primary school. Clearly however the extent that these types of strategies can be used will be limited. It would be impossible to include many of the isolated settlements, perhaps de facto 'key villages' within any such arrangement.

OUTLOOK AND APPRAISAL

As suggested in the UK section, the government faces a number of dilemmas in respect of its economic policy. Under a barrage of criticism, particularly as a result of the increase in unemployment, ministers are perhaps having second thoughts about the wisdom of the policies which they currently pursue. This commentary and the previous one have highlighted the radical change which a monetarist strategy has entailed in the targets and instruments of macro-economic policy. The money supply and public borrowing have become ends in themselves in the short-term. In the longer term these implicitly suggest the further aims of a reduction in the rate of inflation and in the economic role of the state. At the micro level, the strategy also favours consumers at the expense of producers. After a long period in which producers have been the recipients of many forms of state aid, the present accent on non-intervention and on the free play of competitive forces has made the life of the production sector a good deal tougher. In consequence the government has had to deal not only with the predictable wrath of the unions but also with the growing unease of employers and entrepreneurs. The recent 1% reduction in interest rates, which could hardly be justified by the money supply statistics, was probably intended to allay the fears of this latter group. Given its limited extent it is unlikely to be wholly successful.

The crucial question which ministers must ask themselves however is whether the policies are so tough that they will leave the production sector in such a state of collapse that it will not be able to recover. Remembering that producers and consumers are not two distinct groups, but rather a single group with both characteristics, it would surely not be in the long-term interest of consumers to permit the demise of the production sector.

For example, the current strength of sterling is acknowledged to be the result of Britain's oil wealth rather then the competitiveness of industry. Adjustment to the present exchange rate has proved painful and has not been helped by a high domestic rate of inflation. Undoubtedly firms are striving to improve their competitiveness, but there are danger signs from industries which ought not to be in structural decline that they are threatened by the high exchange rate. It is ironic that the members of the present government who used the argument that an economy based on oil would inevitably be forced into de-industrialisation in a Scottish context, now find themselves having to deal with just such a problem in the UK as a whole.

One possible measure which might be considered is that of joining the European Monetary System (EMS). By tying sterling into the other main European currencies, not only would stable trade be encouraged, but also the danger of further appreciation of the pound would be partially overcome. Another possible strategy would be to ensure that in key sectors of industry, government purchases are not influenced by the inflated value of sterling. There is little point in complaining that other governments subsidise high technology industries. They do so and will undoubtedly continue. By not subsidising to the same extent the government is already making it difficult for British firms to compete. By evaluating tenders at going rates of exchange the government increases the difficulties of the British producer. Either explicitly or implicitly some adjustment ought to be made for the extent that oil influences the level of sterling and government purchases based on this adjusted rate of exchange. Otherwise there is a danger that those high technology industries which Britain does possess will be damaged in an irreparable fashion which would not be permitted in other developed economies.

On the question of the general government strategy, it would now be not only very difficult, but also probably unwise to change direction. Any attempt to boost demand, even if implemented immediately would probably take at least nine months to affect the rate of growth of unemployment: an immediate policy turnaround will not bring an immediate improvement in the economic indicators. It is of course believed in some quarters that an incomes policy would have the effect of reducing inflation without exacting such a high cost in terms of unemployment. The supporters of this approach, however, can hardly claim any recent successes and are forced to argue that past failures resulted from special events or an incorrect method of implementation. In general these views are not convincing.

Further, a structured reduction in the rate of growth of wages would undoubtedly require the co-operation of the trade unions. The unions have an ambivalent attitude towards incomes policy. Many opponents of the idea of controlling wages are now discovering that "free collective bargaining" implies not an absolute freedom but rather a freedom which is heavily constrained by the rigours of the marketplace. It seems likely that market pressures will reduce the rate of increase of "freely" bargained wages in the private sector from now on. It is difficult to say whether the discovery that "free collective bargaining" does not inevitably lead to higher wage increases than incomes policies might permit will strengthen the enthusiasm of unions for such a policy. Even if the government did show interest, the unions would undoubtedly try to extract a high price for their co-operation. If this price included increases in public expenditure and/or amendments to the new legal framework for industrial relations, it is extremely unlikely that any bargain could be struck.

The tacit acceptance by the government of short-run increases in the **level** of unemployment seems to be accompanied by a similar acquiescence to changes in its spatial **distribution.** Scotland and the other development areas are perhaps therefore particularly vulnerable to a considerable worsening of their relative unemployment position. This places Scottish Office ministers in a paradoxical position. For although they must agree with the overall government strategy, their immediate responsibility is to ensure the economic well-being of Scotland. It was this latter responsibility which led to the decision that the shares in Ferranti, which the NEB has been forced to sell, were to be dispersed for at least two years. This allayed the fears of Scottish employees of Ferranti, at least temporarily, that the sale would lead to takeover by GEC and consequent rationalisation and loss of jobs in Scotland. Only continued lobbying on Scotland's behalf will ensure that the loss of jobs in manufacturing does not reach a scale such that the possibility mentioned at the beginning of this section, namely that the damage to the production sector will be irreperable, does not become a reality.

As in the April issue, this commentary includes a set of quarterly forecasts for some of the main variables associated with the manufacturing sector. Over the last quarter the drop in manufacturing production has been, if anything, more rapid than envisaged, probably as a result of greater destocking due to high interest rates than in previous recessions. Consequently the associated drop in employment and rise in unemployment has been more dramatic than anticipated. Our latest forecasts (see Table 1) take this into account, projecting a continued fall in output to the first quarter of 1981, by which time the destocking phase of the recession should be ending.

QUARTERLY FORECASTS FOR MANUFACTURING: SCOTLAND AND THE UK

	QMU	QMS	EMU	EMS	UUU	UMS
1980 Q2	96	96	7,255	600	322	50
1980 Q3	94	94	7,250	596	345	54
1980 Q4	92	92	7,142	581	369	57
1981 Q1	91	90	7,048	565	402	66

The overall level of unemployment will be affected as much by the increase in labour supply as by the fall in demand over the next few months. By December one would expect the actual unemployment figure to be around 245,000 and the seasonally adjusted level around 215,000. There is little prospect of any improvement during 1981.