

## INDICATORS OF ECONOMIC ACTIVITY

### PRODUCTION

## The Scottish Economy

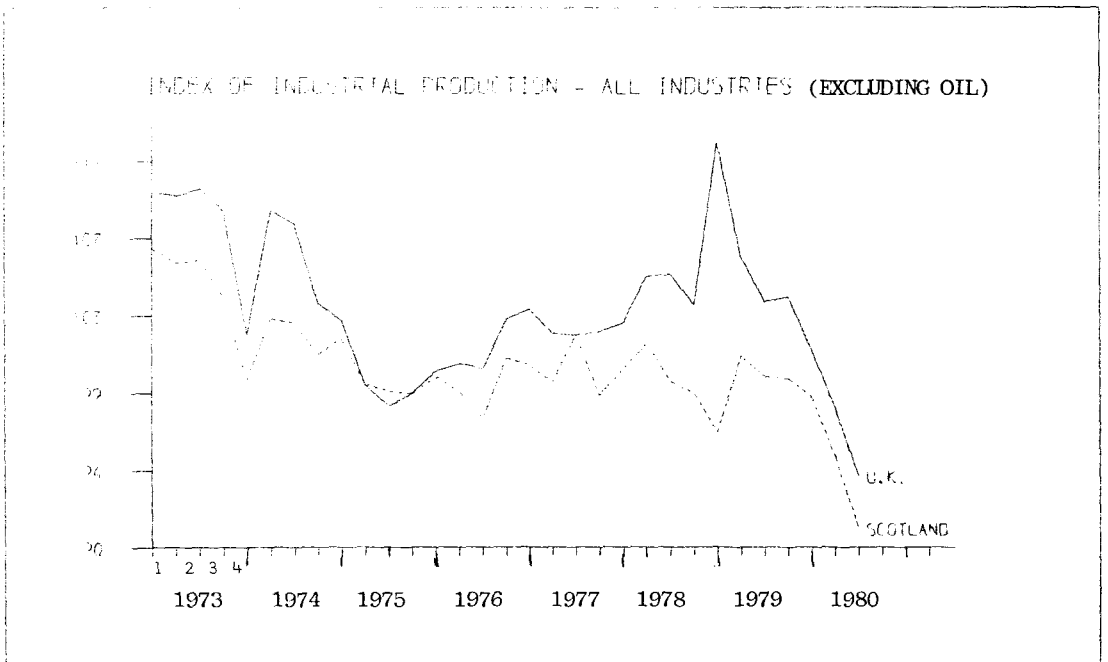
Excluding Petroleum and Natural Gas, the index of industrial production for Scotland, in the third quarter of 1980 fell to 91.8 (1975 = 100), a fall of 4.1% on the previous quarter. In the United Kingdom a similar but less marked trend was evident with a 3.8% fall taking the index to 94.6. By far the major contribution to these figures was the Construction Sector, where a dramatic 13% fall leaves the index 19 points below the 1975 base level of 100. Manufacturing output decreased less sharply over the same period by only 1.9% to 93.9. Nonetheless this remains the lowest recorded figure since the index was rebased in 1975. Unusual factors still affecting the figures include the recovery from the steel strike of early 1980.

The January survey by the CBI reported continued decline in the Scottish economy, though the rate of decline seems to have slowed a little. A balance of 33% of

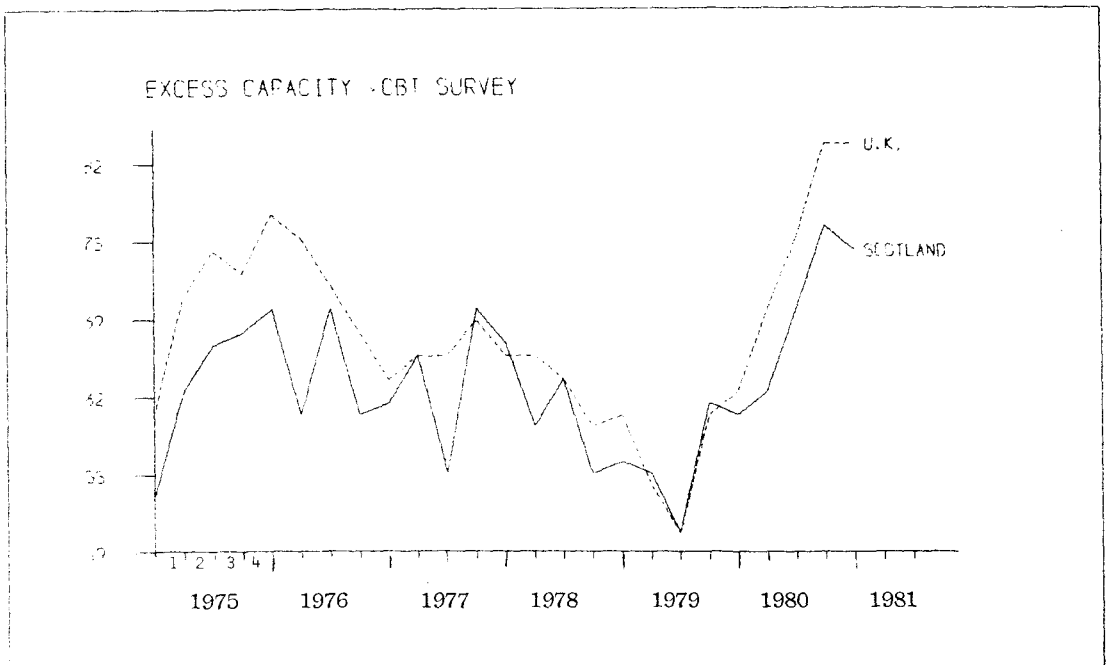
respondents were less optimistic about the general business situation, with only 8% recording more buoyant expectations. This bleak outlook is reflected in depressed capital expenditure plans and output orders. An average of 56% of respondents expect to authorise less on capital expenditure in the coming twelve months than authorised over the previous year, whilst 75% of respondents reported output levels below a full capacity rate of operation. As noted in the January Commentary, with a balance of 86% of respondents expressing adequate or more than adequate stock levels, the prospects for a recovery in employment are poor. This is confirmed by a balance of 59% of respondents who expect a downward trend in numbers employed over the next four months. The reasons proffered for the general inactivity in the economy point to domestic demand deficiencies and in particular to low order books, whilst exports have been limited by uncompetitive prices. This latter observation may in part be explained by the sustained high value of the pound vis a vis other major world currencies.

### COMPANY FORMATIONS AND DISSOLUTIONS

Company formations rose to 914 in the last quarter of 1980, an increase of 247 over the previous quarters' level. Company dissolutions for the same quarter stood at 230. That these figures run against the current of other information on the economy confirms the impression that they are subject to secular trending influences.



Source: Scottish Economic Planning Department



Source: CBI Industrial Trends Survey

## **OVERTIME**

The average hours of overtime worked, per operative working overtime, fell by 0.3 hours to 8.7 from the fourth quarter of 1980, however, the percentage of all operatives working overtime increased from 27.0% to 28.7%. At an average of 951.0 thousand hours, the total number of overtime worked is depressed in relation to recent experience. Since there is a normal seasonal increase in overtime working in the fourth quarter of the year, these seasonally unadjusted figures belie an even more disturbing trend. In the United Kingdom a similar picture is evident with comparable declines in the total hours of overtime worked, average hours of overtime per operative, percentage of all operatives on overtime and number of workers working overtime.

## **BANK ADVANCES**

At mid-February 1981 the total advances to UK residents by Scottish Clearing Banks stood at £3,945 million. This represents an increase of £123 million (+3%) over the corresponding figures for the last quarter of 1980. The annual increase in bank advances was reported to be £786 million (+25%).

The primary and financial sectors (+£45 million), professional services (+£68 million) and the chemical industry (+£22 million) accounted for the largest increases, however, there was a significant reduction in advances to the food, drink and tobacco industry (-£42 million). The public sector (utilities and national government) reversed its flow of advances from - £26 million in the previous quarter to +£2 million in the current one. This is difficult to explain but is probably due to the continuing high rate of inflation and the setting of cash limits by the present government. Personal sector borrowing has also made a recovery in this quarter as a consequence, most likely, of the reduction of interest rates in December.

## **CONSTRUCTION**

The value of new orders received by contractors in Scotland increased slightly in the third quarter of 1980 by £28 million over the second quarter level. The figure, however, is still down on the corresponding quarter of 1979 by £32 million, ie 11%. However, the figure of £249 million was the best for 1980 to date.

The main increase in orders has come in the commercial sector, most noticeably office building, and are better than the 1979 figures in real terms. The public sector is still depressed and no signs of recovery are evident or likely. For housing, both private and public sector orders have declined by £1.5 million and £8.5 million respectively.

## INDUSTRIAL PERFORMANCE

### AGRICULTURE

The provisional results of the 1980 Scottish December Census reveal a reduction of 3% in the total number of cattle in Scotland. The beef breeding herd has fallen by 15%, making a further decline in cattle numbers inevitable. The fall in home production and the likely reduction in imports from Ireland (due to exceptionally high slaughtering last year) suggest a small, but significant decrease in beef supplies in 1981 which will help to improve the market. Demand is not expected to improve, and may even decline - the beef market, being income-responsive, will be affected by the decline in real incomes.

The Scottish Census also showed that the number of sheep put to the tup increased by 2%, and the number of pigs is 3% higher than in 1979. Areas of winter-sown wheat have risen by 11% while areas of autumn-sown barley are up by 69% on the previous year. The fall in farm incomes in Scotland is rising - in 1979 the average reduction was 19%, while in 1980 there was an average drop in income of 24%.

Market prices of sheep in Scotland have been rising for most of February and March, but are not expected to reach guide prices, so the variable premium is still payable. Lamb marketings remained at high levels in February, aided by reduced New Zealand imports and lower values of sterling. The market is likely to slacken in the future because of the rising value of sterling and the increasing supplies of lamb from New Zealand.

UK milk production rose in the first quarter of 1981, but Scottish production and sales are down again. SMMB area production for February was 0.5% down on last year, while sales were 1.7% lower. The North of Scotland areas production continuing a marked downward trend, fell by 4.6%, while the Aberdeen District area had a rise in production of 4%.

### FISHING

Total landings in Scotland (by UK vessels) for 1980 were 371,355 tonnes, an increase of 4.6% on 1979. The total value of the catch in 1980 was 7% down on 1979 despite the increased volume. The higher volume of the catch was largely due to the 18% increase in landings of haddock. The average price of haddock (which in December 1980 accounted for about 30% of total wet fish landings) fell by 16% over the year, while the average price of whiting fell by 6%.

The ban on herring fishing in Scotland will be lifted before the summer because stocks are steadily increasing. Initially about 40 vessels will be granted a licence, and landings are likely to be at Mallaig, Ullapool and Stornoway. Crews from the Minch will be given preference, but it is likely that North-East herring fishermen will also receive some share of the licences.

Scotland will receive £1.7m in grants from the EEC to help finance twenty four specific projects in inshore fishing, including vessel construction and

modernisation and the development of marine fish farming. The UK government is giving fishermen a £25m grant, to be shared on the basis of catching capacity, to provide short-term aid but this is unlikely to offer much relief given that fishing representatives felt that £100m would be necessary to help the industry through its financial crisis.

It is unlikely that any progress will be made in the quest for a Common Fisheries Policy before the French Presidential elections in April and May. The conflict centres on the issue of access to coastal waters, with France continuing to reject Britain's claim for a 12-mile exclusive zone. One British proposal which is likely to be accepted is to have a small box off the North of Scotland where small (less than 80ft) Scottish boats would have privileged access.

**OIL AND GAS**

The sixteen oil fields on stream in the North Sea produced 1.77m b/d. The addition of Tartan's Texaco field came after a series of delays. The Department of Energy revised estimates of oil production for 1981 are 10% lower than the figure forecast last summer. Wood Mackenzie recently downgraded their output estimates for the Tartan, Brent and Thistle fields. BP have cut production for Forties and may cut back still further in the summer.

However the surplus of production over supply is likely to increase as UK oil demand continues to fall. Figures of oil product sales in Scotland for 1980, issued by the Institute of Petroleum, show a drop of 22% over the previous year. This compares with a fall of 15% for the UK overall.

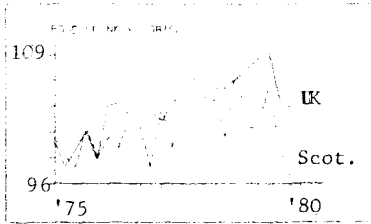
The existence, or absence, of a formal government oil depletion policy is probably now of less importance as both the tax increases and the delays in development tend to act as restraints on production. If political pressures from home and abroad are also considered it is doubtful whether significant depletion measures, to achieve a levelling out of output will ever be introduced. Each development plan will be considered separately and it will be interesting to see whether, like in the Clyde plan, approval for Phillips 'T' block is withheld.

Changes in the Petroleum Revenue Tax and the imposition of a supplementary petroleum duty were announced in the Budget. The UK Offshore Operators Association and, more recently, BP, have warned that these further tax changes could affect exploration and development activity. Subsequently Occidental has announced a postponement in their development plans for North Claymore.

A further batch of 37 licences in 41 blocks were allocated under the 7th round agreement in designated areas. A further 18 concessions are still to be allocated and it is thought that these include applications where Total and Elf are involved. The Department of Energy is attempting to ensure that gas from their Alwyn field joins the proposed gas gathering system rather than being fed into the existing Frigg line as proposed in their development plan.

Plans for the gas gathering pipeline have been scaled down and the project has been put back a year. The dropping of the 50 mile Southern link between Lomond and Fulmar and the initial exclusion of the Northern spur line linking Murchison and Magnus should assist the financing of the project. There are still unresolved financial and administrative problems and continuing uncertainty about the feasibility of the project without Norwegian participation.

#### FOOD, DRINK & TOBACCO



The food, drink and tobacco sector experienced a 3% fall in output in the third quarter of 1980, recording an index level of 97. The January CBI Industrial Trends Survey shows that 72% of respondents are operating below a satisfactory level of capacity, resulting in a high incidence of labour-shedding; 57% of respondents expect to reduce numbers of employees in the next four months. 31% of respondents compared to

27% in the last four months feel less optimistic about their general business situation. The increased duty on cigarettes announced in the Budget will have a detrimental effect on the tobacco industry, and this has already forced some producers to cut production.

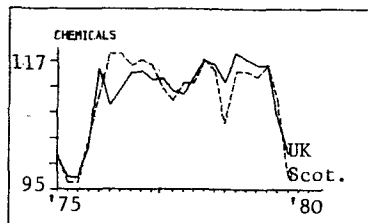
Production in the fourth quarter of 1980 recovered from the previous quarter's low level, to 102,796 thousand litres of pure alcohol. This is 19% lower than production in the same period of 1979. Total production for 1980 of 415,510 thousand litres was 9.5% down on 1979.

#### WHISKY

Exports of whisky were 65,444 thousand litres in the fourth quarter of 1980, 4.6% higher than the previous period, but in comparison to the fourth quarter of 1979, the figure represents a fall of 12.7%.

Demand for whisky remains low, and is likely to be further reduced by the Budget duty increase. Consumption of whisky fell after the price increase caused by the March 1980 Budget, and it is expected that this will happen again. The continuing high level of sterling means that exports will not improve to compensate for the shortfall of home demand, so further reductions in working hours, and lay-offs, particularly in smaller distilleries, seem likely. Indeed there has already been a closure at Bladnoch in Dumfries and Galloway. At present the industry is working at 50% of normal capacity, with widespread short-time working and redundancies may now be unavoidable.

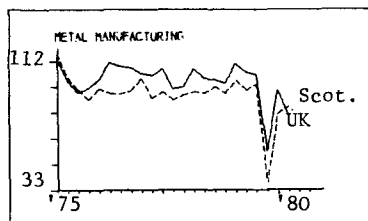
## CHEMICALS



that output could be inhibited by a lack of orders. Representatives of the chemicals' industry believe that output may stabilise in 1981, but is unlikely to increase for some time.

Output in the third quarter fell by 12% to an index level of 98, the lowest recorded for five years. This means that production in Scotland has fallen more rapidly than in the rest of the UK. 96% of respondents to the January CBI survey are operating at less than full capacity, 19% more than in the previous period. 93% expect that the volume of output will remain unchanged in coming months, though it is agreed unanimously

## METAL MANUFACTURE

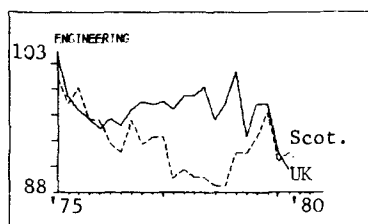


industry is regaining some of the export markets lost during the strike. 65% of respondents reported that their export order books were above average and 64% expected the increase to be maintained over the next four months. In October 91% recorded below normal export orders.

Production rose slightly during the third quarter of 1980 as the industry continued to recover from the strike at the beginning of the year. The CBI Industrial Trends Survey for January 1981 reports less pessimism about the general business situation and export prospects in particular, than in October although 90% still recorded underutilisation of capacity. It would appear that the

The British Steel Corporation is campaigning to recover domestic customers whose confidence was severely affected by the stoppage. BSC losses are expected to be £660m for the year ending 31 March 1981. Under the corporate plan losses of £318m are expected for 1981/82 with a move towards profitability later in 1982. As part of the MacGregor package the workforce at Ravenscraig recently signed a restrictive demanning agreement.

## ENGINEERING



Large firms within the heavy engineering sector of the industry have reported mixed results. After announcing a pretax loss last year of £8.25m the Weir group is to be the subject of a financial reconstruction, organised by a consortium led by the Royal Bank of Scotland and including the SDA and the Finance Corporation for Industry. After fears of possible redundancies in the Spring crucial export orders, worth over £60m, were secured by John Brown Engineering. Yarrows engineering offshoot reported losses for the six months up to December 1980. Anderson Strathclyde recently announced 345 redundancies and foresee a difficult period ahead in the short term.

Output for the third quarter of 1980 for engineering and allied industries remained steady. The CBI Survey for January 1981 shows little change from the October picture although there has been a slight shift towards a less pessimistic outlook overall.

However, Babcock of Clydeside have a healthy order book and, in conjunction with General Electric, they have won a massive £300m order for the design and supply of a coal fired power station in Hong Kong. They also have contracts worth £30m for components for Torness and Heysham B power stations. The Howden Group will build the main gas circulators for both stations.

Employment contraction continues in a number of electrical engineering companies. NCR Dundee will pay off a further 250 employees in June leaving 850 workers in a plant that once employed 7,000. After reporting their first UK loss since 1937 Hoover have announced 400 redundancies at their Cambuslang factory while the remaining 2,300 workers are to stay on indefinite short time. On a smaller, but more optimistic note, the Sunbeam Corporation are to make their East Kilbride plant their sole manufacturing base in Europe. Employment, mainly of women will increase to 300 from the currently reduced force of 190.

The electronics industry presents a brighter picture. Beckman Instruments and Racal are to open new factories in Glenrothes and Newbridge respectively. Motorola is considering expanding its East Kilbride plant by another 500-800 employees. As part of its diversification policy Timex is to manufacture the Sinclair designed pocket TV in Dundee. Employment prospects within the company should be strengthened although it is not certain that 'new' jobs will be created.

#### **SHIPBUILDING AND VEHICLES**

World shipbuilding output fell by a further 8.3% in 1980 but completions in British yards dropped by 38% recording the lowest figure since 1933. Until 1979 the Japanese and European industries were contracting at similar rates in line with the 1976 OECD agreement to effect an orderly rundown in response to decreased demand. However Japan's share of total world completions rose in 1980 to 46.5% and they plan a further one third increase in 1981/82.

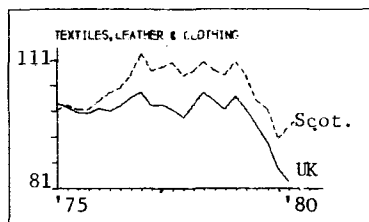
Under British Shipbuilder's 1978 Corporate Plan the contraction in merchant shipping employment was to be partially compensated for by increases in warship and offshore oil vessel capacity. Following a spate of Navy orders two years ago there has been a dearth of orders, uncertainty about Naval and government policy and, as a consequence, uncertainty about the future of naval shipyards such as Yarrows. It is thought that the Navy is considering abandoning the type 22 frigate series being built at Yarrows in favour of a smaller less expensive vessel. If closer co-operation between the Navy and British Shipbuilders develops, the type 23 frigate could be marketed abroad by British Shipbuilders. It is considered a more attractive export proposition, after naval trials, than the highly sophisticated vessels favoured by the Navy in the past.

The postponement and possible cancellation of Occidental's plans for a floating platform for their North Claymore field has implications for Scott Lithgow's offshore vessel development plans. They are, however, still working on the second BP ESV and a design for the tension leg platform for Hutton.



UIE at Clydebank are maintaining a healthy order book and have recently obtained a contract to build a £18m jack up rig for gas development in Morcambe Bay.

### TEXTILES, LEATHER & CLOTHING



While the rest of the UK experienced falling output, the Scottish sector's production rose by 3% to an index level of 96 in the third quarter of 1980. However, future prospects for the industry are not good. Order books are continuing to decline, and as current stocks of goods are high further lay-offs are inevitable. Textile industries in general are reliant on the export market,

and are finding survival difficult under the present conditions of the high exchange rate and the relatively high inflation rate of the UK.

### BRICKS, POTTERY, GLASS AND CEMENT

Output in Scotland reached another low in the third quarter of 1980, falling by 6% to an index level of 77, a less severe drop than was experienced in the rest of the UK. Scotland's production in this sector is down 17% on the same period in 1979.

### PAPER, PRINTING AND PUBLISHING

The paper, printing and publishing sector's output fell by 6% in Scotland in the third quarter of 1980, to an index level of 97. In the rest of the UK, output remained stable.

Total employment in the paper products industry fell by about 2% in 1980. An increase in the number of closures and redundancies is envisaged for 1981.

## EMPLOYMENT AND UNEMPLOYMENT

Most recent data on employment refers to September 1980. Table 1 records employment in Scotland, and in England and Wales, for the five quarters ending September 1980.

**TABLE 1 EMPLOYEES IN EMPLOYMENT IN SCOTLAND AND IN ENGLAND & WALES (000's)**

SCOTLAND	TOTAL	MALES	FEMALES	SCOTTISH EMPLOYMENT AS % OF GB EMPLOYMENT
Sept 1979	2,078	1,188	890	9.30
Dec 1979	2,054	1,174	881	9.22
Mar 1980	2,025	1,158	868	9.23
June 1980	2,027	1,154	878	9.25
Sept 1980	2,001	1,140	862	9.26
<b>ENGLAND AND WALES</b>				
Sept 1979	20,277	11,901	8,376	
Dec 1979	20,223	11,803	8,420	
Mar 1980	19,919	11,659	8,260	
June 1980	19,879	11,611	8,628	
Sept 1980	19,610	11,464	8,146	

**Source:** Department of Employment Gazette

Total employees in employment declined by 77,000 (3.7%) between September 1979 and September 1980 in Scotland, and by 667,000 (3.2%) in England and Wales. In the quarter to September 1980, employment in Scotland declined by 26,000 (1.3%), and by 287,000 (1.4%) in England and Wales. Details of employment by broad sector (Table 2) show that in Scotland the greater part of job losses (nearly 80%) has been in manufacturing. In England and Wales job losses in manufacturing in the year to September also account for the major share of total job losses, though proportionally somewhat less (72%) than in Scotland. This is despite the fact that manufacturing employment accounts for a smaller share of total employment in Scotland than in England and Wales.

The data in Table 2 demonstrates that manufacturing industry in Scotland has been harder hit by the recession than manufacturing industry in England and Wales over this period. To a very limited extent the share of manufacturing in total Scottish job losses appears worse because losses in other sectors (notably services) were proportionately less than in England and Wales. Even allowing for this factor, however, the decline in manufacturing employment in Scotland is relatively greater.

TABLE 2: EMPLOYMENT BY SECTOR, SEPTEMBER 1980

SCOTLAND

SECTOR	NO EMPLOYED (000's)		% OF TOTAL (SEPT 1980)	CHANGE IN NO EMPLOYED (000's)
	SEPT '80	SEPT '79		SEPT '79 - SEPT '80
Agriculture, Forestry & Fishing	48	( 49)	2.32%	- 1
Manufacturing	537	( 598)	26.84%	- 61
Construction, Utilities & Mining	224	( 233)	11.19%	- 9
Services	1,192	( 1,198)	59.57%	- 6
<b>Total</b>	<b>2,001</b>	<b>( 2,078)</b>	<b>100%</b>	<b>- 77</b>

Service/Manufacturing Ratio 1980 - 2.22; 1979 - 2.00

ENGLAND AND WALES

Agriculture, Forestry & Fishing	335	( 334)	1.71%	+ 1
Manufacturing	5,941	( 6,419)	30.30%	-478
Construction, Utilities & Mining	1,668	( 1,722)	8.51%	- 54
Services	11,666	(11,802)	59.49%	-136
<b>Total</b>	<b>19,610</b>	<b>(20,277)</b>	<b>100%</b>	<b>-667</b>

Service/Manufacturing Ratio 1980 - 1.96; 1979 - 1.84

**Note:** Constituent items may not add to totals due to rounding.

**Source:** Press Notices from Department of Employment.

The most recent data on unemployment, for March 1981, records 287,243 persons registered as unemployed in that month, a small decrease (632) over the February figure but an increase of 87,119 over the corresponding month last year. Moreover the underlying trend as measured in the seasonally-adjusted unemployment (Table 3) is still strongly upwards. There is no sign of any underlying improvement, though the rate of increase in unemployment is slowing down. Given current levels of unemployment a reduction in the rate of change is not unexpected.

TABLE 3 UNEMPLOYMENT, SCOTLAND AND GREAT BRITAIN

	Scotland			Great Britain		
	Dec.1980	Mar.1981	Change	Dec.1980	Mar.1981	Change
Total unemployed incl.schl.leavers	261,767	287,243	+25,476 (9.7%)	2,150,500	2,384,800	+234,300(10.9%)
School leavers under 18	11,584	15,870	+ 4,286 (37.0%)	88,600	72,900	- 15,700(-17.7%)
Seasonally adj. unemployed (excl. school leavers)	247,100	264,600	+17,500 (7.1%)	2,048,300	2,286,200	237,900(11.6%)
Unemployment %age total unemployed	11.6%	12.7%		9.1%	10.1%	
Unemployment %age seasonally adj.	10.9%	11.7%		8.7%	9.7%	

Source: Department of Employment

Data in Table 4, recording unemployment and vacancies in the standard regions of the UK confirm the pattern noted in the last Commentary, of other regions "catching up" Scotland in the impact of the current recession. As in December, Scotland has the lowest ratio of unemployment to notified vacancies outside the South-East, South-West and East Anglia, though the ratios themselves have risen in all regions except the North-West in the last quarter.

There is frankly little that can be said at this point in the cycle that has not been noted in the most recent issues of this Commentary - employment, particularly in manufacturing industry continued to fall, and unemployment to rise, albeit at somewhat slower rates than previously. While the recession is now affecting the more prosperous regions to a relatively greater degree, the unemployment data do not at present yield any evidence that the deterioration in labour demand is anywhere near its nadir.

**TABLE 4 REGIONAL UNEMPLOYMENT & VACANCIES IN THE UK AT 12 MARCH 1981**

	UNEMPLOYED <sup>1,3</sup> (000's)	UNEMPLOYMENT RATE (%)	VACANCIES <sup>2,3</sup> (000's)	UNEMPLOYMENT/ VACANCIES RATIO <sup>3</sup>
South-East	518.8 ( 453.5)	6.8 ( 6.0)	37.4 (38.3)	13.8 ( 11.8)
East Anglia	57.9 ( 51.3)	8.0 ( 7.1)	3.6 ( 3.2)	16.1 ( 16.0)
South-West	146.9 ( 134.2)	8.8 ( 8.1)	7.5 ( 7.5)	19.6 ( 17.9)
West Midlands	270.1 ( 231.4)	11.6 ( 9.9)	5.9 ( 5.2)	45.8 ( 44.5)
East Midlands	144.8 ( 128.4)	9.0 ( 8.0)	5.5 ( 5.0)	26.3 ( 25.7)
Yorks & Humber	218.7 ( 196.2)	10.4 ( 9.3)	5.7 ( 6.3)	38.4 ( 31.1)
North-West	339.0 ( 307.1)	11.9 (10.7)	9.2 ( 8.2)	36.9 ( 37.5)
North	178.4 ( 165.2)	12.9 (11.9)	4.1 ( 4.7)	43.5 ( 35.2)
Wales	139.8 ( 129.3)	12.9 (11.9)	5.2 ( 4.9)	26.9 ( 26.4)
Scotland	264.6 ( 247.1)	11.7 (10.9)	12.6 (14.5)	21.0 ( 17.0)
GB	2286.2 (2048.3)	9.7 ( 8.7)	96.6 (98.0)	23.7 ( 20.9)
N Ireland	94.6 ( 88.3)	16.4 (15.3)	0.6 ( 0.8)	157.7 (110.4)
UK	2380.8 (2136.6)	9.9 ( 8.8)	97.6 (98.8)	24.5 ( 21.6)

<sup>1</sup>Seasonally adjusted excluding school leavers.

<sup>2</sup>Seasonally adjusted excluding vacancies notified to careers offices.

<sup>3</sup>Figures for December 1980 in brackets.

**Source:** Department of Employment

## REGIONAL REVIEW

### UNEMPLOYMENT AND VACANCIES

In March 1981 the total number of unemployed in Scotland stood at 287,243, representing an unemployment rate of 12.7%, an increase of 25,476 over the last quarter of 1980. Beneath this national figure Strathclyde and the Western Isles continue to hold the unenviable positions at the top of the regional unemployment ladder with unemployment rates of 15.1% and 20.2% respectively. In recent years the regions with the lowest unemployment rates in Scotland have been Borders, Shetland and Grampian. However, since December 1980 these three regions have experienced the largest percentage increases in their unemployment levels reflecting the way in which even these areas of Scotland are now being hard hit by the recession. With the closure of the Talbot plant at Linwood in June, and the subsequent effect that this will have on the rest of the Scottish economy, unemployment can be expected to rise by at least 6,000, not even allowing for the effect of additional redundancies that will undoubtedly take place before then. With Datsun discounting all of the proposed sites in Scotland put before them, the outlook continues to look gloomy for the regions of Scotland whether industrial or rural.

The total number of notified vacancies continued to fall in the first quarter of 1981 to a level of 12,637. Despite this Highland, Strathclyde, Lothian and the Western Isles managed surprisingly to experience small rises in the number of notified vacancies. Dumfries and Galloway after experiencing a large rise in December 1980 returned to its historical trend with a fall in the number of vacancies.

**TABLE 1**

#### UNEMPLOYMENT, UNEMPLOYMENT RATE AND VACANCIES NOTIFIED BY SCOTTISH REGIONS, MARCH 1981

	TOTAL UNEMPLOYMENT		UNEMPLOYMENT RATE %		VACANCIES	
Borders	3,005	( 2,473)	7.7	( 6.3)	267	( 301)
Central	14,262	( 12,584)	12.1	(10.6)	584	( 800)
Dumfries & Galloway	6,982	( 6,453)	12.5	(11.6)	295	( 705)
Fife	15,995	( 14,248)	11.7	(10.4)	497	( 507)
Grampian	13,686	( 11,775)	7.4	( 6.3)	1,705	( 1,849)
Highland	8,641	( 8,431)	10.9	(10.7)	1,005	( 617)
Lothian	33,558	( 29,971)	9.8	( 8.7)	1,890	( 1,732)
Strathclyde	166,417	(153,521)	15.1	(13.9)	5,531	( 5,377)
Tayside	22,110	( 20,008)	12.8	(11.6)	695	( 710)
Western Isles	1,671	( 1,440)	20.2	(17.4)	68	( 54)
Orkney	553	( 520)	9.0	( 8.4)	12	( 20)
Shetland	403	( 343)	4.6	( 3.9)	88	( 109)
<b>SCOTLAND</b>	<b>287,243</b>	<b>(261,767)</b>	<b>12.7</b>	<b>(11.6)</b>	<b>12,637</b>	<b>(12,781)</b>

Figures for December 1980 are in brackets. Unemployment totals and the employment rate include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Offices.

**Source:** Manpower Services Commission

## REGIONAL DEVELOPMENT GRANTS

The level of Regional Development Grants (more than £25,000) awarded by the UK government in the last quarter of 1980 rose to £22.3m. In constant 1975 prices this represents £11.3m, the highest level since the first quarter of 1979. This figure reflects a complete reversal of the recent trend although it largely reflects the way in which the government has been holding back payment to the end of last year. However with a substantial share of the grants being awarded to companies directly involved in oil-related activities at Peterhead and Grangemouth the recently stated criticism of the structure of Regional Development Grants (Fraser and Orton, Quarterly Economic Commentary Vol.6 No.1) can again be expressed. A large number of investment projects would undoubtedly go ahead regardless of the existence of Regional Development Grants. At a time when the present government believes economies in public expenditure to be of the highest priority a review of regional policy would appear imperative so that resources could be allocated to marginal projects rather than those which could be privately funded.

The first allocation of European Regional Development Grants for 1981 awarded a total of £39.4m to 66 Scottish projects. The highest figure since the European Regional Development Fund was established in 1975. 75% of the Scottish allocation will be passed on to local authorities and other public bodies to provide infrastructure, in particular road, electricity generation and distribution, water supplies, sewerage and telecommunications.

## REGIONAL EARNINGS

Tables 2 and 3 show the average weekly and hourly earnings in the regions of Scotland for full-time men and women in April 1980.

Clearly there are substantial inter-regional differences in earnings both for males and females. In Grampian and Central males are paid the highest earnings while for females the earnings leaders are Grampian and Lothian. Predictably Borders and Dumfries, predominantly rural areas are at the bottom of the earnings league, although perhaps surprisingly Tayside with a large industrial area around Dundee also suffers from relatively low earnings.

Compared with the other standard regions of Great Britain, Scotland has the widest differences in its earnings structure at the sub-regional level, with the exception of the South East. This tends to confirm the view that Scotland should not be looked at as a homogeneous region.

TABLE 2

## MALE EARNINGS BY REGION AS AT APRIL 1980

	Average Gross Weekly Earnings (£)	Average Hourly Earnings (pence)
Borders	105.7	234.6
Central	130.4	301.1
Dumfries & Galloway	110.4	237.6
Fife	121.7	266.9
Grampian	132.9	291.0
Highland	121.1	269.7
Lothian	121.4	275.3
Strathclyde	122.1	275.3
Tayside	109.3	244.6
<b>Scotland</b>	<b>123.1</b>	<b>277.6</b>

TABLE 3

## FEMALE EARNINGS BY REGION AS AT APRIL 1980

	Average Gross Weekly Earnings (£)	Average Hourly Earnings (pence)
Central	69.3	185.7
Fife	73.4	172.9
Grampian	80.8	213.1
Highland	72.8	193.0
Lothian	76.4	206.5
Strathclyde	74.7	193.4
Tayside	67.6	172.9
<b>Scotland</b>	<b>74.7</b>	<b>194.7</b>

Source: New Earnings Survey, 1980

## LOCAL AUTHORITY RATE INCREASES

The issue which has aroused most controversy within the regions during the last quarter is the recently announced rate increases. While Shetland has managed to keep its rates stable all the other regional and island authorities have announced substantial increases. These range from the well publicised 49.3% increase for Lothian to 19.5% for Dumfries and Galloway. At the District level the increases have been more extreme. Dundee, Stirling and Cumbernauld and Kilsyth Districts announced increases of 150%, 122.2% and 108% respectively. Conversely Sutherland and Ross and Cromarty managed to reduce their rates by 5.8% and 7.6% respectively.

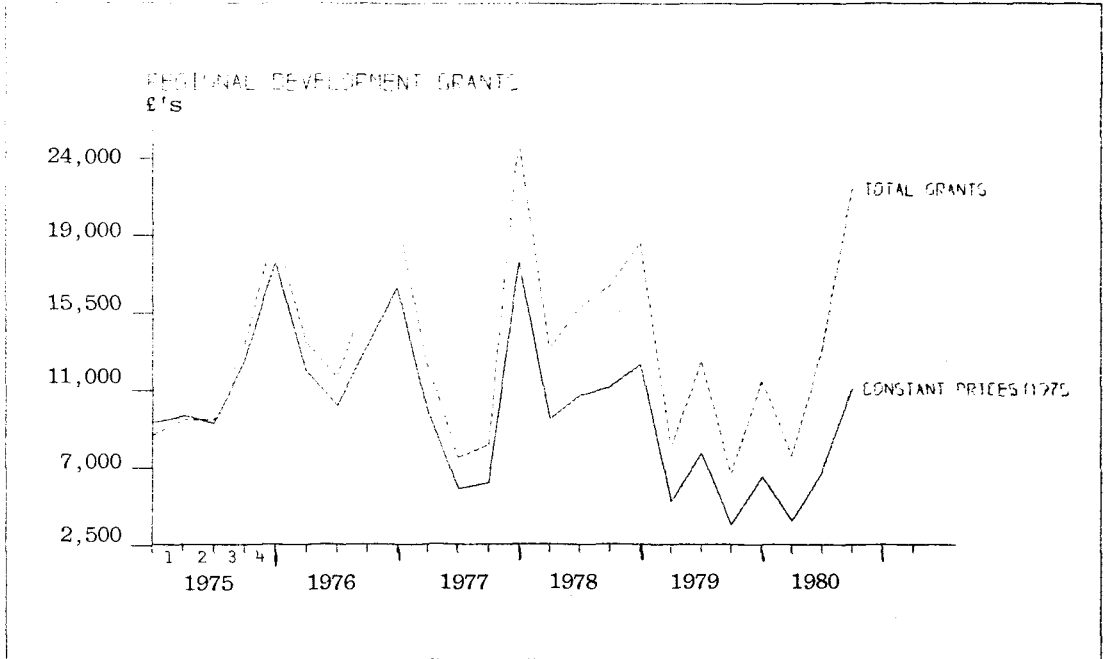


The manner in which local government expenditure is financed has long been considered unsatisfactory. Rates finance "current expenditure" ie salaries for teachers, policemen, and other local government employees; other related expenditure like the maintenance and upkeep of social work departments; and the loan and interest charges on previous borrowings to finance capital expenditure. The rate set this year is influenced by the level of capital spending made in previous years in addition to the extent to which local government has varied its expenditure on current account activities. Capital expenditure on new roads, new schools, sports centres, and drainage and sewerage facilities etc is financed by central government capital grants and loans raised from the money markets. In so far as central government must give its consent prior to loans being raised some control on local spending is exerted. This is not the case with current expenditure. The 1973 Local Government Reform (Scotland) Act allows regional authorities, at least, to spend money on practically anything.

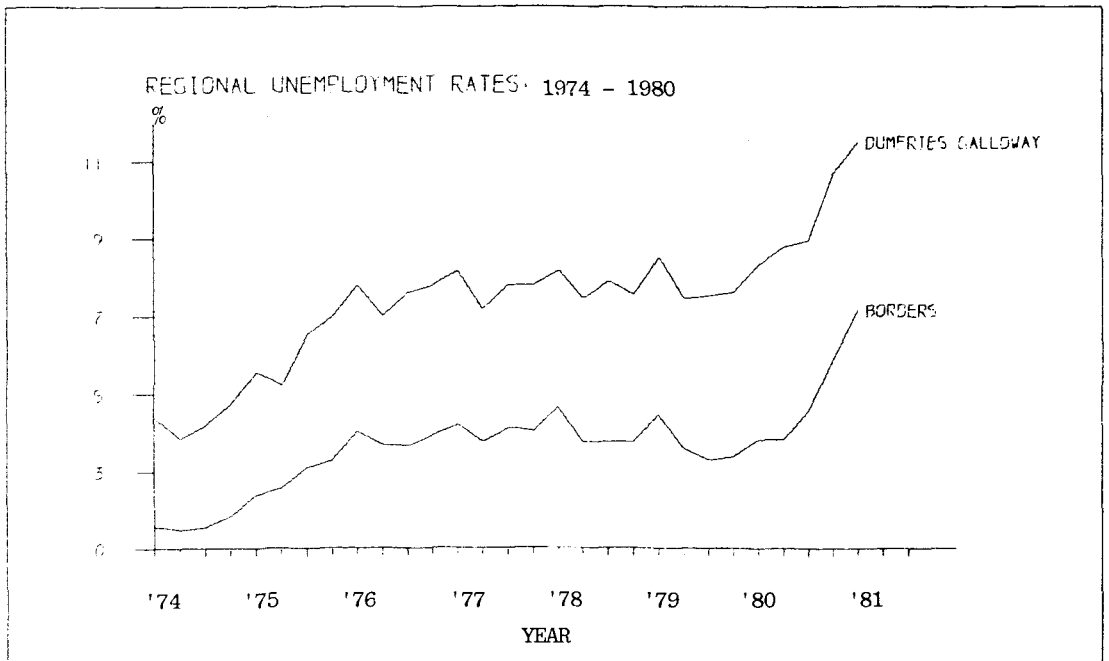
Central Government is clearly in no mood at present to tolerate what they consider overspending by regional authorities yet no attempt has been made to change the rating system. This is despite the fact the present government was committed to the reform of the system at the time it was elected. During the 1970's the Layfield Committee examined the whole question of Local Government finance. Amongst a number of possible alternatives the "local income tax" has emerged as the most favoured. The replacement of rates by such a measure is not likely to be contemplated by this, or any other centralist government as such a move would undermine the argument that a Scottish Assembly should not have tax raising powers.

#### **REGIONAL UNEMPLOYMENT RATES 1974-1981**

The graphs of regional unemployment rates over the last seven years show that all the Scottish regions have experienced great variability in their unemployment rates. In particular the Western Isles and Highland regions have gone through large year by year changes. The historic unemployment rates for the Borders, Shetland and Dumfries and Galloway reflect their relative stability compared to the other regions. Even in these areas however the current recession has finally been realised. Since 1974 the underlying trend has been upwards for all regions with this trend being particularly marked since the last quarter of 1979.



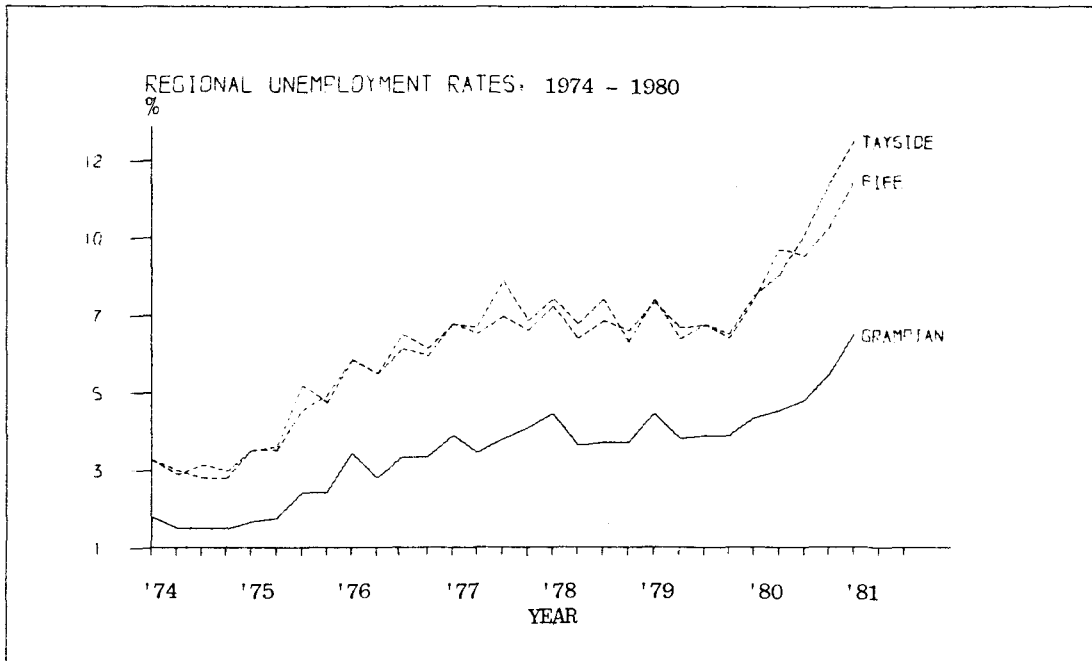
Source: British Business



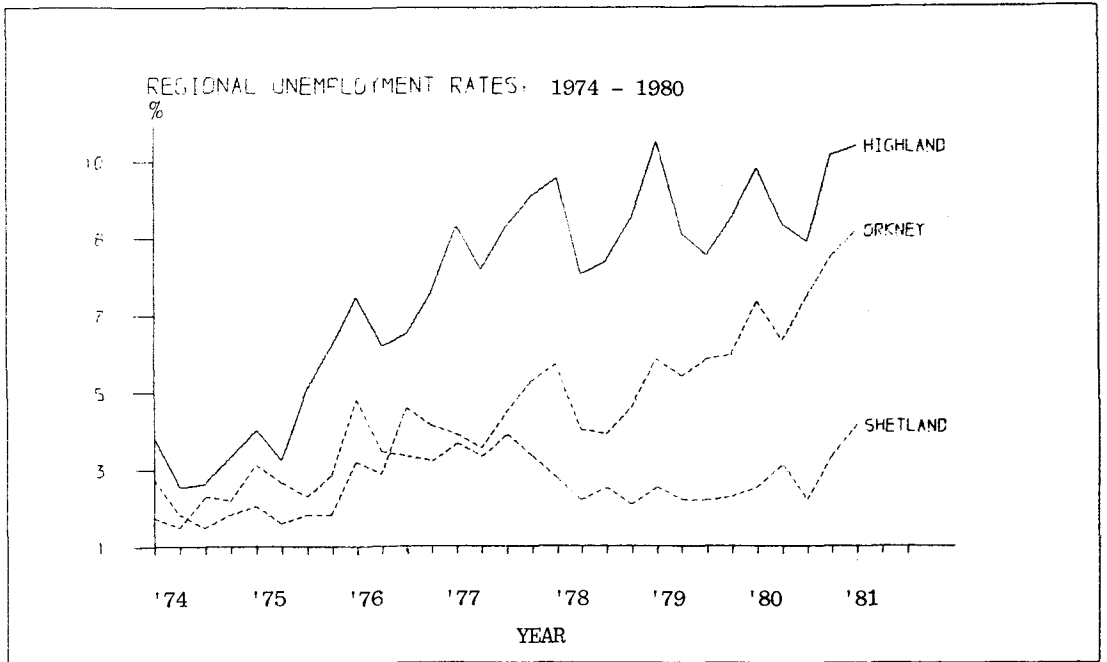
Source: Department of Employment Gazette



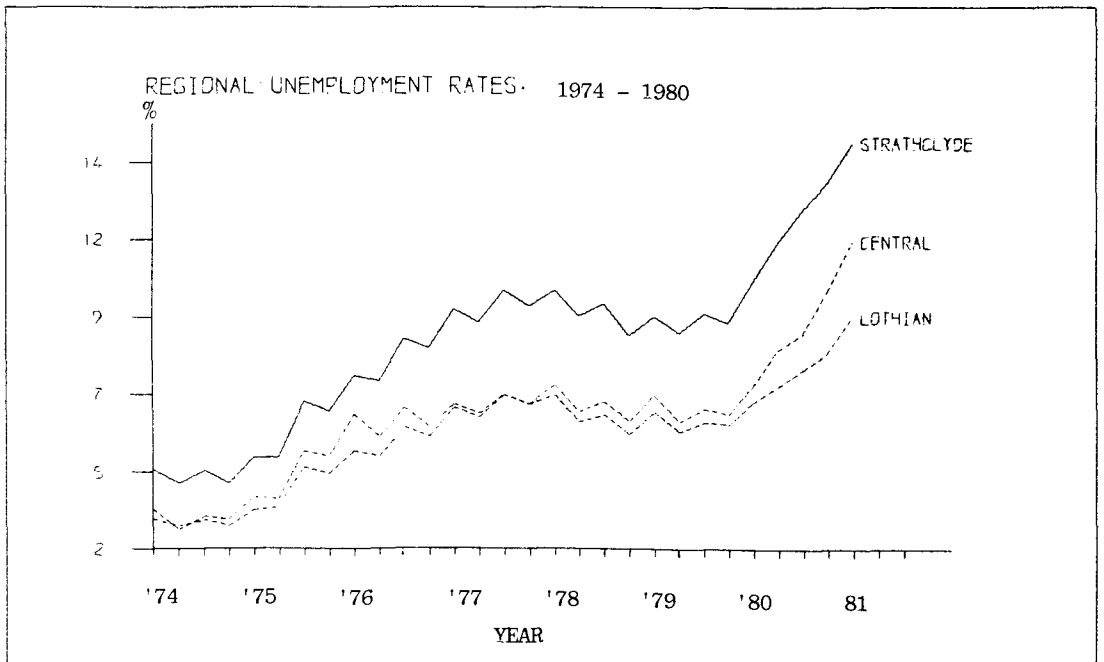
Source: Department of Employment Gazette



Source: Department of Employment Gazette



Source: Department of Employment Gazette



Source: Department of Employment Gazette

## OUTLOOK AND APPRAISAL

The end of the recession may be approaching, but as yet there is no strong evidence of any sustained or substantial recovery. Indeed, as highlighted in the UK section, there is no clear evidence that the mechanisms upon which the government are relying will generate a significant upturn. The UK economy is notoriously unresponsive to price signals, and while one should support governments efforts to increase this sensitivity, historical evidence is at best equivocal on the efficacy of this approach. For example, while the response of manufacturing investment to changes in output is unambiguously positive, the response to changes in the cost of capital is unclear. Indeed the Treasury have been unable to establish a significant relationship between manufacturing investment and capital cost and, in consequence, base their forecasts on the assumption that such a link exists. Further, any positive effects which might stem from a fall in interest rates will be dampened by the considerable spare capacity in the manufacturing sector brought about by the depth of the current recession.

By far the most volatile element of demand during this recession has been the level of stocks held by manufacturers, wholesalers and retailers. While some firms still feel their stock levels to be too high, one would expect, as indicated in the last commentary, that the aggregate stock level will stabilise in the latter half of 1981. This being the case, further falls in production will be unlikely. Indeed, recent figures are indicative of a levelling out in the trend of industrial production.

A direct stimulus to investment could be provided by removing the financial constraints on public corporations and/or encouraging the private sector to participate in schemes which conventionally would have been funded by the exchequer. This would have the desirable effect of counteracting the ill-advised shift in public spending toward current expenditures. This shift has insulated the public sector from the worst effects of the recession while worsening the plight of private industry. The extent of the problems of the private sector are illustrated by the fall in the number of employees in manufacturing (see Employment and Unemployment). With 80% of the overall fall occurring in Scottish manufacturing, which only employs 27% of the workforce, the discriminatory effects are abundantly clear.

The long-term weakness of the Scottish economy has contributed to the attempts to gain control of the major independent Scottish commercial bank. Companies who rely on the Scottish economy as their major source of custom will inevitably fall prey to larger international concerns whose ambition and resources are greater. While any takeover would be unlikely to cause large job-losses, any removal of decision-making power would inevitably be detrimental to Edinburgh's standing in the financial community.

Even though the trough of the recession is in sight, the deterioration of the labour market will continue and unemployment will continue to rise in the foreseeable future, though perhaps at a slightly slower rate. Our January forecast of 285,000 unemployed in Scotland during the first quarter of 1981 was reasonably accurate, the actual outturn being 287,000. Our expectation is still that unemployment will exceed 300,000 in June and exceed 320,000 by the end of the year. Detailed quarterly forecasts for output, employment and unemployment over the next four quarters are given below:

QUARTERLY LABOUR MARKET FORECASTS: SCOTLAND AND THE UK

FROM QUARTER 4 1980 TO QUARTER 4 1981

		QMU	QMS	EMU	EMS	UMS	US
1980	Q4	89.0	89.8	6,269.0	503.2	72.2	
1981	Q1	90.0	89.7	6,222.8	496.7	79.4	287
1981	Q2	90.0	90.0	6,216.6	491.8	82.7	305
1981	Q3	92.0	91.8	6,171.7	485.0	85.3	315
1981	Q4	92.0	91.8	6,140.0	480.0	88.2	327

Where: QMU = Manufacturing Output UK (1975 = 100)  
 QMS = Manufacturing Output Scotland (1975 = 100)  
 EMU = Manufacturing Employment UK (thousands)  
 EMS = Manufacturing Employment Scotland (thousands)  
 UMS = Manufacturing Unemployment Scotland (thousands)  
 US = Total Unemployment Scotland (thousands)

Longer term labour market prospects will be assisted by the expected decline in the number of school leavers after 1982.