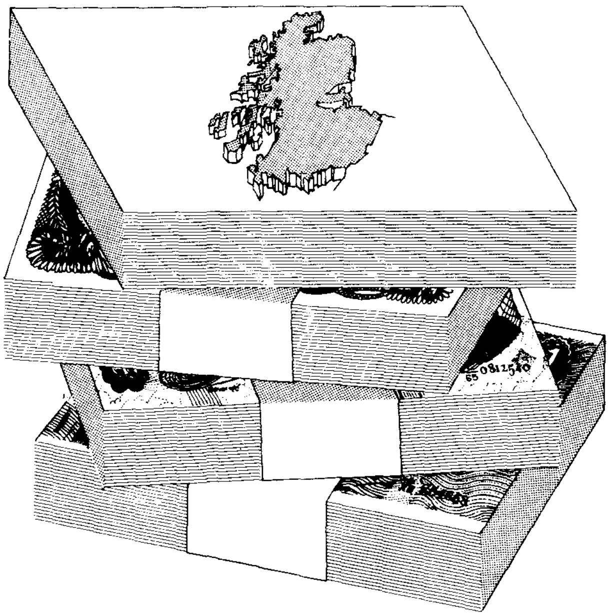
The Scottish Economy



INDICATORS OF ECONOMIC ACTIVITY

PRODUCTION

The index of industrial production figures for Scotland for the fourth quarter of 1980 have now been released and show a continuing downward trend in industrial activity in Scotland. For all industries (excluding MLH 104*) the index stood at 89.2: down 3.1% on the previous quarter. The corresponding figure for the UK was 91.6, a fall of 3.8% from Q3 in 1980 to Q4 1980.

In Scotland, the main fall in production can be attributed to the metal manufacturing, engineering and textile industries whereas slight indications of recovery were found in the indices for food, drink and tobacco, and chemicals, coal and petroleum products. This is the first time since the index was rebased in 1975, that the index of industrial production for Scotland has fallen below 90. Recently published UK figures for the first two quarters of 1981 indicate that the bottom of the output recession has been reached. The index has remained steady around the 90 level from December 1980 to June 1981. The sectors which show the strongest signs of recovery are chemicals, coal and petroleum products, and metal manufacture. Although Scottish figures are not yet available it is likely that they will reflect the UK figures.

However the July issue of the **CBI Industrial Trends Survey** gives no indication that the recession is over or even that it has bottomed out. In Scotland only 15% of those questioned were more optimistic about the general business situation in their industry whereas 20% were less optimistic. These figures were slightly worse than those for the UK as a whole, although a net 'pessimistic' balance was reported there also. More than 70% of firms are still working below capacity (lower graph) and capital expenditure plans have not improved much since the last Survey. Indeed, more than 40% of the respondents, both in the UK and in Scotland, plan to reduce

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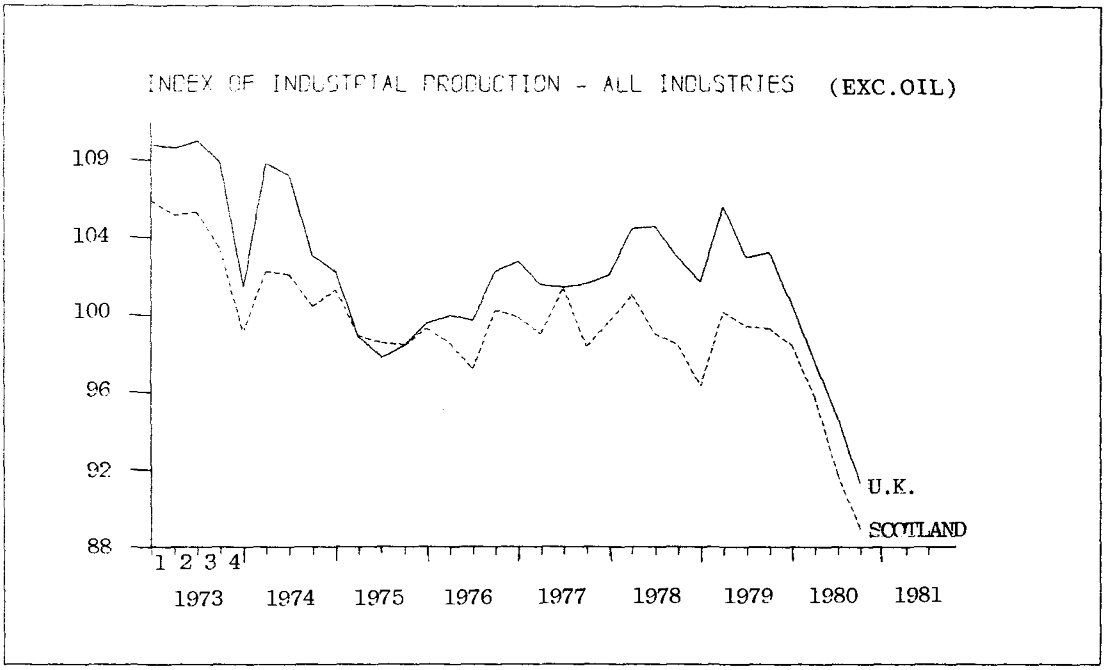
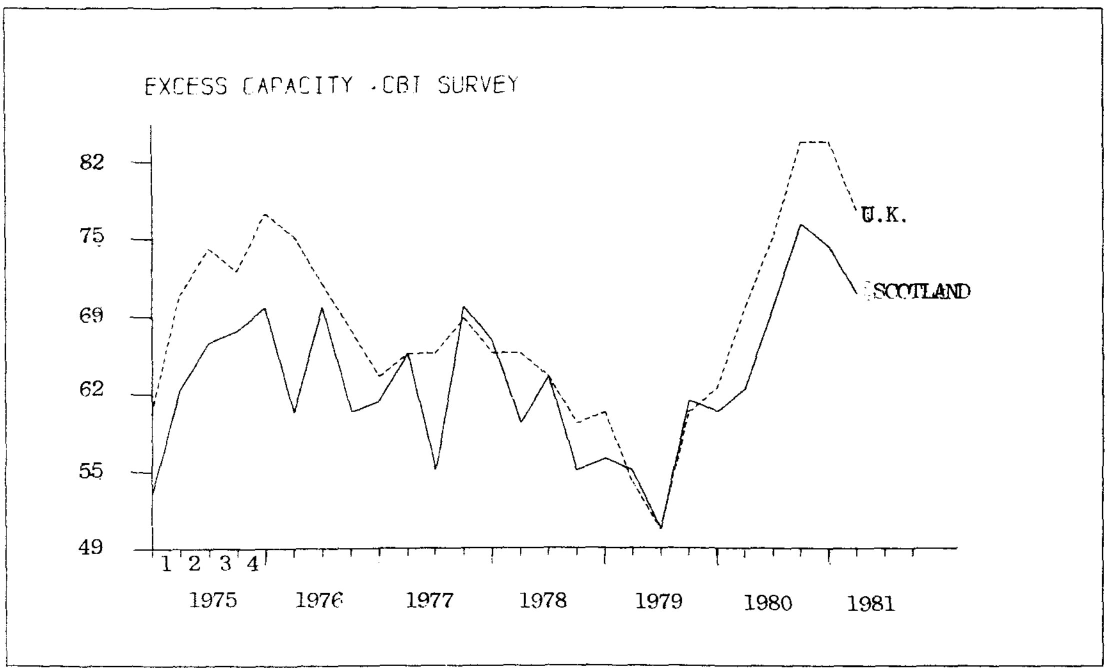
*MLH is Petroleum and Natural Gas Production from the North Sea

Owing to the civil servants' dispute, figures for overtime working in Scotland are still not available in a comparable form with the UK figures.



Source: Scottish Economic Planning Department



Source: CBI Industrial Trends Survey

current-year levels of expenditure on buildings, and plant and machinery over the next twelve months while only 11% plan to increase their expenditure on buildings and 20% plan to increase it on plant and machinery.

There are, however, two encouraging indications: a net 6% of those asked expect total new orders to rise in the next four months, in volume terms, whereas for the previous four months a net 18% had expected orders to fall. This improvement is also indicated in the UK sample. A similar, though not quite as marked, trend is reported for the volume of output. This optimistic note is not continued when employment intentions are considered. More firms expect to reduce their labour force over the next four months than to increase it.

COMPANY FORMATIONS AND DISSOLUTIONS

In July and August there were 494 incorporations and 250 dissolutions. While these figures appear surprisingly good they do not indicate the total numbers of jobs created and lost. It is therefore recommended that this indicator be treated with caution and not considered in isolation from other indicators.

BANK ADVANCES

Bank advances to UK residents from the Scottish Clearing Banks stood at £4,285m for the year as at 19 August 1981, an increase of £318m (7.4%) over the previous quarter.

This indicates a substantial increase in bank activity which may be associated with two distinct but conflicting facts. First, the fall in interest rates arising from the last budget and, secondly, continuing cash flow shortages in industry and business. If the main reason is the fall in interest rates at least some improvement in industrial activity and investment intentions is implied. However, the increased borrowing may be due to further cash-flow difficulties caused by increased raw materials costs or by a continued slowdown in business activity.

Whatever the true reason for the reported increase, it may be confidently forecasted that any further increase in bank activity in the next quarter will be due mainly to cash-flow difficulties. This conclusion is reached because of the rise in interest rates over the last few weeks which can only act to discourage investment.

The manufacturing sector borrowed £33m more in the quarter to mid-August than in the previous one. The two largest industry changes in this sector were food, drink and tobacco (+£26m) and shipbuilding (-£13m). Other production showed an increase of £63m made up of agriculture, forestry and fishing (+£55m), mining and quarrying (+£10m) and construction (-£2m).

The financial, service and personal sectors all increased their borrowings in the quarter with the only fall in these sectors being in public utilities and national government (-£11m).

CONSTRUCTION

In the second quarter of 1981 the value of new orders received by contractors was £243m representing an increase over the previous quarter's total of £34m. It is also up, by £22m in current terms, on the corresponding quarter of 1980; in real terms, however, this indicates a slight drop in activity. The half-yearly total of new orders for 1981 stands at just over £452m which compares unfavourably with the total for the first six months of 1980 (£454+m) - a drop both in real and current terms.

Some recovery in public sector orders was reported in most sectors compared with the first quarter, although not in new housing or schools and colleges. There was £118m worth of new orders placed by the public sector in the second quarter; an increase of £12m over the first three months.

In the private sector new orders increased by £21+m in the second quarter with the industrial and housing sectors accounting for most of the increase.

INDUSTRIAL PERFORMANCE

AGRICULTURE

The MAFF National Food Survey shows that consumption of beef and veal in the first quarter of this year is 17% lower than that of the same period last year, and cheaper types of meat such as poultry and sausages are being substituted for beef. It is expected that this low demand for beef will continue, but that current prices will be sustained by a low level of production in coming months. This however creates excess capacity in the slaughtering industry, which has already sustained heavy trading losses.

The Scottish market price for sheep has risen in the past two months from 105p/kg to 150p/kg, and the variable premium payable has fallen by 23p/kg. The main reason for this rise has been the increased export profitability brought about by the fall of sterling against the franc and the deutschemark. The price of French lamb has fallen slightly but not by enough to make it cheaper in terms of sterling. Exports have also been helped by a fall off in Irish supplies to the Continent.

Production of milk in June and July of this year has been consistently less than in the same period of 1980, but in August output has risen to exceed last years levels. In the North of Scotland production was over 4% higher than in August 1980. in the Aberdeen and District area, production was up by 5.5%, and the SMMB area's production increased by 1.5%. The rises in output in April and August have pushed production figures for that five month period higher than in 1980.

FISHING

Total landings in Scotland (by UK vessels) for the first three months of 1981 were 48,258 tonnes, worth £22.3m. While the volume of landings is only marginally (0.8%) lower than that of the first quarter of 1980, the value of the catch is 7% less. Landings of cod are 10% lower compared to the same period of 1980, while the value per tonne has fallen from £571 to £517. The value of haddock has dropped by almost £100 per tonne compared to 1980, and landings are down by 16%. In contrast, the whiting catch increased by 43% over the first quarter of 1980 and the value per tonne was about 10% higher over the period.

The herring fishery off the West Coast reopened in July after a three year closure, but was abandoned by Scottish fishermen after only two weeks. The EEC had set a total allowable catch of 55,000 tonnes, but failed to formalise individual quotas, and a free-for-all ensued among Common Market boats. Fears that the fishery would be overworked too soon, and the inadequacy of remaining processors to deal with herring catches caused the Scottish fleet to pull out. It is hoped that a controlled fishery can be organised to follow the mackerel season, by which time the processing industry will be better equipped to deal with the landings. In the meantime the fishing ground is being kept under surveillance by protection vessels.

An agreement was recently achieved by EEC Fisheries Ministers on certain aspects of fishing policy. There is to be a marketing system which will offer protective action against fish landed below EEC minimum prices; in addition fishermen will be offered compensation to withdraw fish from the market should a glut cause prices to drop below minimum levels. £15m has been made available for the development of the fishing industry to be spent on restructuring the fleets of members. and on maintaining conservation measures. The twin stumbling blocks of a common policy, quotas and access rights, are as yet unresolved, but the achievement of some agreement makes the outlook for the November negotiations slightly more optimistic.

OIL AND GAS

UK production from April to June 1981 totalled 21.7m tonnes,arise of 11.5% compared with the same period in 1980. The continued increase in UK output contrasts with the recent experiences of OPEC, whose output is now below 20 million bpd which is only two-thirds of the early 1980 level. Most of the UK's increased production is being used to replace imports of foreign oil: in the first half of 1980 domestic oil provided 45.3% of UK refinery needs; in the first half of 1981 this proportion had risen to 50.1%. However, exports of British crude are also rising being 42% higher in the second quarter of 1981 than it had been in the equivalent period in 1980.

Worldwide supply of oil continues to exceed demand and this has led to stabilisation of market prices. Because of the rise in the value of the dollar relative to the pound, however, oil costs to UK users have continued to rise: from $37.05 pb in April to $42.72 pb in July. Further price rises in oil products were announced by the majors in September. British Gas have also announced price rises to users recently, and in total the consumer price of gas has risen by 63% in the past year.

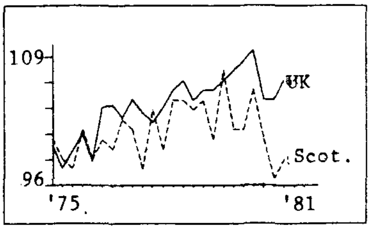
Exploration drilling continued during the second quarter, with 18 exploration rigs active in UK waters between March and July. Eleven additional discretionary blocks were allocated under the seventh round. BNOC/CONOCO announced a 'significant' discovery of oil south of Forties, while BP made a light oil find near the Bruce field. Marathon have made a large gas find in the North Brae field. This field could contain 150-200 million barrels of condensate (very light oil) and 1×10^{12} cubic feet of gas.

Onshore, Esso, after lengthy negotiations with the government, confirmed their intentions to proceed with a chemical plant at Moss Morran. Shell announced £40m contracts for their gas processing plant, also at Moss Morran, which could create 900 jobs in the area. Dow announced that they would continue to consider plans for a £600m petrochemical development at Nigg in spite of the Government's negative decision on the gas-gathering pipeline (see below).

During recent months, the oil operators have been complaining increasingly about the oil tax regime operational in the North Sea, and particularly about the imposition of supplementary Petroleum Revenue Tax announced in the March budget. To put matters in perspective, Wood Mackenzie have estimated that, of the revenue accruing from an 'average' barrel of North Sea oil, 58% goes in tax and 29% in costs, leaving only 13% profit for the operators. On certain revenues the marginal rate of tax can be as high as 91%. The operators are arguing that such high tax rates render certain developments non-economically viable, and appear to be translating their words into actions. BP, Occidental, Amoco and LASMO among others have postponed field developments because of the present tax situation and the UK Offshore Operators Association have asked the government not to issue additional exploration licenses until the tax problem is resolved. The major difficulty is in devising a viable tax system which extracts economic rent from highly profitable fields while not impairing the economic viability of marginal ones. The difficulty is compounded by the fact that each North Sea field is virtually unique in its cost and revenue profiles, so that 'average' values for the North Sea province as a whole are almost meaningless.

The major topic of the moment is unquestionably the government's decision, announced on 11 September, not to provide public support for the proposed £2.7 billion gas-gathering pipeline. It presently appears that, to all intents and purposes, this decision kills off the project in its most ambitious form. This issue is of such importance and complexity that it is discussed more fully in a separate article in this Commentary. Suffice it to say here that it now seems that the gas from some fields will continue to be flared off or re-injected indefinitely. It also appears, however, that the northern section of the pipeline may be completed privately as an extension of the FLAGS and Friggs pipeline projects. The FLAGS system was originally to serve North/South Cormorant, Brent, N W Hutton, Heather and Ninian, but the operators are now considering inclusion of Thistle, Murchison and Magnus. It is also possible that UK gas from Statfjord will be piped to Norway when the Norwegian pipeline is completed.

FOOD, DRINK AND TOBACCO



Output rose in the fourth quarter of 1980 by 2% to an index level of 99; food, drink and tobacco was one of two industrial sectors in Scotland to experience an increase in output in the fourth quarter, and there was a similar increase in the output of the UK sector. In 1980 as a whole, production in Scotland was 1.9% lower than 1979's level. 67% of respondents to the July CBI Industrial Trends survey are producing a less than satisfactory level, and as 95% stated that orders are the main factor likely to limit output over the next four months, it seems likely that this low level of production will continue.

There have been announcements of impending redundancies in food and drinks industries. At the James Keiller marmalade factory in Dundee, 130 jobs have been lost as part of a takeover agreement made with Okhai Ltd.

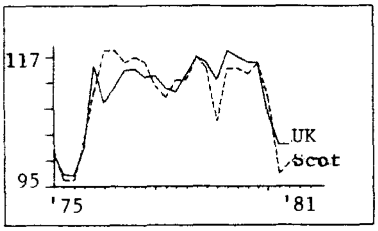
Scottish and Newcastle are to make 600 workers redundant. Production workers at the Holyrood Brewery, along with managerial and administrative staff at the company's main centres of Glasgow, Edinburgh and Newcastle, are to lose their jobs, and the possibility of more jobs being cut has not been ruled out. In common with other breweries Scottish and Newcastle are suffering the combined assault of rising costs and falling demand.

WHISKY

Production of whisky in the second quarter of 1981 was 76,068 thousand litres of pure alcohol, 6.7% above the level of the previous quarter, but 36% below the figure for the same period in 1980. The fall in production between the first half of 1981 and the same period of 1980 is 36.4%.

There are no signs of conditions in the industry improving, although the fall in the value of sterling may offer a temporary encouragement to sales abroad. With production still falling, thousands of workers remain on short-time working, or have been laid off. Distilling output is running at about 55% of capacity, and no real recovery is now expected before 1983, which means that short-time working will continue for a considerable period.

CHEMICALS, COAL AND PETROLEUM

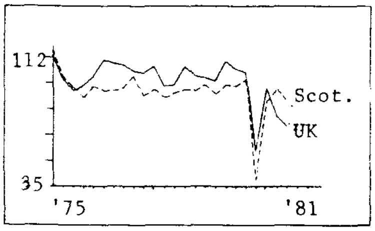


The fourth quarter's index of production in Scotland shows a rise of 2%, to an index of 99. Output in 1980, at an index level of 106, is 7% lower than that for 1979. The reduction in output in Scotland over 1980 was less severe than that experienced by the UK as a whole. There has been some slight improvement in the industry's outlook according to responses to the CBI survey of July 1981. 81% of respondents are operating below satisfactory capacity, and while this gives no cause for optimism, it is 12% lower than in the preceding four months. 33% of respondents are more optimistic about their general business situation than they were four months ago. However 41% expect that further reductions in employment will be necessary in coming months.

The workforce of BP Chemicals in Grangemouth is to be cut by 250. The company hopes this can be achieved through natural wastage, early retirement and voluntary severance. The reduced workforce is a part of the company's measures to return Grangemouth to profitability; it has also been suggested that the reduction has been influenced by the government's decision against financing the North Sea gas gathering pipeline.

The Scottish coal industry may face problems next year when the government's coal burning subsidy to Scotland's power stations runs out. As 70% of Scottish coal goes to power stations, mainly Longannet and Cockenzie, the maintenance of this subsidy is necessary to ensure an outlet for Scottish coal production.

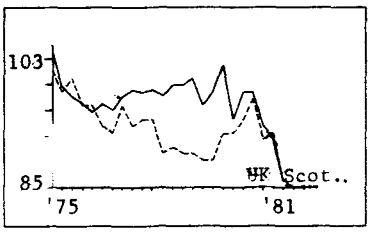
METAL MANUFACTURE



Output of metal goods dropped back a further 14% during the fourth quarter of 1980, after an increase following the strike earlier that year. However, the CBI July 1981 Survey reported an increase in business optimism compared with the April Survey. Respondents to the July Survey recorded a significant upward trend in output prices over the last four months and expected an acceleration in the trend over the next quarter.

The cancellation of the proposed North Sea gas gathering pipeline by the government is a blow for British Steel. The Corporation had the capability of producing the steel for the line and were confident of obtaining as much as 80% of the contract. If the oil companies go ahead with a more limited plan British Steel may secure a number of orders but prospects are less favourable. Following the emphasis by the Corporation on the provision of steel for gas gathering systems two contracts, worth £13m, for the Morecombe and Rough fields were recently obtained. Two factories in Lanarkshire will be involved in production.

ENGINEERING AND ALLIED INDUSTRIES



Output for engineering and allied industries fell by 8% during the last quarter of 1980 with shipbuilding, marine engineering and vehicles recording a 16% fall, due to the sharp decline in the vehicle sector. The concentration of electronics firms in Scotland accounts for the small increase in electrical engineering production as output for the UK as a whole fell. More recently the CBI Survey in July 1981 recorded little change in their assessment of trends since April, although there has been a marginal increase in confidence.

Some engineering companies appear to be not only surviving the recession but obtaining substantial new orders, while others experience considerable difficulties. Weirs reported a pre tax profit of £3.1m for the 6 months to 31 July, after financial reconstruction, following losses in 1980. The recovery has continued with recent orders from Nigeria, Saudi Arabia and Zimbabwe and a £1m design contract for a water supply system for a desalination plant in the Middle East to be built by Sumitomi. John Brown Engineering have work for their current workforce until the end of 1983 and an order book standing at £190m. They recently obtained their largest single contract, worth £61m, for 21 gas turbines to be used in Russia. This has been followed by a further order of £4 3m for equipment and spare parts. Two American owned oil related firms are to expand. Gray Tool is to create 250 new jobs at East Kilbride and TK Valve is to treble its output in Dunfermline by 1983 with an increase of 300 in its labour force. However, Condor is to close its Cumbernauld plant where a workforce of 235 produced steel building structures.

A final decision on the future of Hoover UK including the plant in Cambuslang, which has been hit by the steep rise in imports of cleaners, is to be made by the end of the month. The company is experiencing severe losses and is considering four policy options which include the closure or reduction of the Cambuslang operation. As part of the survival plan proposals for a 10% wage cut in January, a reduction in manning and longer intervals between wage agreements were suggested but have been rejected by the workforce. The electronics firm Motorola has announced a £60m expansion in East Kilbride where its 1,300, mainly female, employees will be increased by a further 800. Work has started on Nippon Electrics semi-conductor plant in Livingstone and there is continuing interest by smaller companies in setting up micro technology based plants in the central belt. The outlook for one of the earliest computer firms, Burroughs in Cumbernauld, is bleak. A further 400 workers were made redundant during the summer.

SHIPBUILDING AND VEHICLES

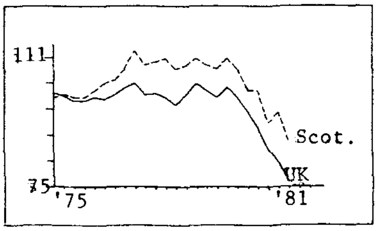
The Robb Caledon yard in Dundee was closed in mid-September with 130 compulsory redundancies announced. A 'sit-in' by the members has since ended, and it appears the yard will not reopen under the ownership of British Shipbuilders.

However prospects have improved at a number of other yards in Scotland. Govan has secured the largest single merchant shipping order for more than 18 months. The £58m order from Canada is for 3 bulk carriers. The Navy is to go ahead with another £130m type 22 frigate at Yarrows. Both Robb Caledon in Leith and Ferguson Ailsa in Port Glasgow and Troon have substantially increased their order books over the summer. A further £2.5m investment programme is to be undertaken by UIE at Clydebank. This is to allow the company to diversify into other engineering projects for the oil industry.

After falling sales and profits in the truck market, and uncertainty about the future of Leyland's Bathgate plant, there is cautious optimisms about the new export oriented Landmaster. Orders for the new truck have been higher than anticipated.

The Caterpillar Tractor company has called for a reduction of 800 workers at their Uddingstone Assembly plant. If this request is not met then short-time working will be introduced.

TEXTILES, LEATHER, CLOTHING



The index of output for Scotland in the fourth quarter of 1980 was 88, 8% down on the production of the previous quarter. In that quarter production increased, for the first time in 18 months, by 3%. The index for 1980, at 95, is 12% lower than that for 1979, but is a relatively better performance than that of the UK, whose production fell by 16% in the same period.

A buyer has been found for the Lee Jeans factory in Greenock, saving the jobs of 140 workers. The SDA, the National Association of Scottish Woollen Manufacturers and the Scottish Woolen Publicity Council have designed a campaign to promote Scottish woollen and knitwear products in six key markets - West Germany, Italy, USA, Canada, Japan and Hong Kong. The sales drive is designed to help stem the loss of jobs in the two industries, where employment has been declining at an annual rate of 1,000 jobs.

Doubts surround the future jobs at the BMK carpets firm, based in Kilmarnock. The receivers have been called in and it is hoped to find a buyer for the company. Response to the July CBI Industrial Trends Survey reveals a growing pessimism in the industry. 36% of respondents are less optimistic about their general business situation, compared to 14% in the previous period, while the number of respondents who are more optimistic about the business situation has remained at 16%. 45% of respondents reduced the size of their workforce in the four months to July, and 27% expect to do so in the coming months.

BRICKS, POTTERY, GLASS AND CEMENT

Production in the fourth quarter of 1980 fell by 25% to an index level of 75. For 1980 as a whole production in Scotland was down by 15.6%, the second largest fall experienced in the manufacturing sector. The Scottish industry's fall in output over 1980 was greater than that experienced by the UK as a whole, where production fell by 9.9%.

Bottlemakers have been badly affected by the recession. and the depressed conditions of the industries which it supplies. Competition from abroad, especially Italian glassware, remains strong, although exports from the UK have improved slightly as a result of the lower value of sterling.

PAPER, PRINTING AND PUBLISHING

Output in the fourth quarter of 1980 remained unchanged at an index level of 96, after a substantial fall of 6.7% in the previous quarter. The index level for 1980, at 101, is 10% lower than that for 1979, while the UK industry fared even worse, with a 14% fall in production over the year.

Wiggins Teape are to expand their Fort Willian paper mill at a cost of £2m. The investment will increase production of photocopying paper, making it one of Europe's largest suppliers. It is not envisaged that additional jobs will be created by the investment.

The Simplicity Patterns printing plant at Blantyre, Lanarkshire, is to be closed, resulting in a loss of 187 jobs. The company has been a major employer in the town for 30 years, but the continuing fall in UK sales has forced the company to close part of its operation.

Encase (Scotland) Ltd, a subsidiary of a Canadian packaging company is to reopen the former Triplex factory in Larkhall, and predicts that up to 200 jobs may be created.

EMPLOYMENT AND UNEMPLOYMENT

Table 1 records the estimated number of employees in employment in Scotland and in England and Wales in each quarter March 1980 to March 1981.

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

SCOTLAND	TOTAL	MALES	FEMALES
March 1980	2.030	1.165	864
June 1980	2,036	1,168	869
Sept 1980	2.013	1.154	858
Dec 1980	1,977	1,132	845
March 1981	1.926	1.103	823
ENGLAND AND WALES			
March 1980	20.002	11.699	8.304
June 1980	19,972	11,663	8,309
Sept 1980	19.713	11.524	8.190
Dec 1980	19,366	11,267	8,099
March 1981	18,922	11.023	7,899

Source: Department of Employment

Total employment in Scotland fell by 104,000 (5.1%) between March 1980 and March 1981, compared with a fall of 1,080,000 (5.4%) in England and Wales. Scottish employment as a proportion of total British employment thus rose slightly, from 9.21% in March 1980 to 9.24% in March 1981. The fall in Scottish employment was however relatively greater than that in England and Wales in the first quarter of 1981 - 2.6% compared with 2.3%. In both regions, the fall in employment in the year to March 1981 has been somewhat greater for males than females. This is a reflection of the sectoral impact of job losses, shown in Table 2.

TABLE 2 EMPLOYMENT BY SECTOR IN SCOTLAND AND IN ENGLAND AND WALES, MARCH 1981

SCOTLAND	**NO EMPLOYED ('000)**	**% OF TOTAL EMPLOYMENT**	**CHANGE IN EMPLOYMENT DEC 1980- MARCH 1981**	**CHANGE IN EMPLOYMENT MARCH 1980- MARCH 1981**
Agriculture, forestry and fishing	45	2.3	0	- 2
Manufacturing	498	25.9	- 18	- 67
Construction, Mining & Utilities	213	11.1	- 5	- 14
Services	1,170	60.7	- 26	- 20
TOTAL	1,926	100.0	- 51	- 104
ENGLAND AND WALES				
Agriculture, forestry and fishing	305	1.6	- 11	+ 3
Manufacturing	5,553	29.3	-195	- 693
Construction, Mining & Utilities	1,592	8.4	- 21	- 87
Services	11,473	60.6	-201	- 303
TOTAL	18,922	100.0	-429	-1,080

Source: Department of Employment

These figures illustrate the dramatic decline in manufacturing employment and the continuing significant shift in the structure of employment in favour of service-type industries, although they too have been shedding labour. Also worthy of note is the impact of job losses in the first quarter of this year - in Scotland, job losses in the first quarter of 1981 contributed almost half the total job losses in the four quarters to March 1981. While this is partially a seasonal effect, it also reflects the worsening impact of the current recession in the early part of this year.

Proponents of the view that the worst of the recession may be past may however derive some slight encouragement from the more up-to-date unemployment statistics shown in Table 3. While the total and the seasonally-adjusted number of persons recorded as unemployed reached new heights in September, the rate of increase in employment is slowing down. Seasonally-adjusted unemployment increased by 2 percentage points between September 1980 and March 1981, and by 1.5 percentage points between March and September 1981. Nevertheless there is every indication that unemployment will continue to rise in the immediate future.

Scottish unemployment remains at around 11.6% of total unemployment in Great Britain. At 13.2% the unemployment rate in Scotland ranks fifth highest in ten standard planning regions of Britain, though in terms of the ratio of unemployment to vacancies only the South East, East Anglia and the South West are more favourably placed (Table 4). The unemployment/vacancies ratio has also declined in most regions and in Britain as a whole in the quarter to September, another small indication that the level of output may have levelled out around the middle of the year.

TABLE 3 UNEMPLOYMENT IN SCOTLAND

	TOTAL UNEMPLOYED [1] (000's)	**SEASONALLY-ADJUSTED UNEMPLOYED** [2] (000's)	**SEASONALLY-ADJUSTED UNEMPLOYMENT RATE (%)** [2]	**SCOT. UNEMPLOYMENT AS A % OF BRITISH UNEMPLOYMENT**
September 1980	240.9	220.2	9.7	12.8
October	246.1	229.4	10.2	12.7
November	254.6	239.2	10.6	12.3
December	261.8	247.1	10.9	12.1
January 1981	286.6	252.5	11.2	11.8
February	287.9	258.1	11.4	11.7
March	287.2	264.7	11.7	11.6
April	287.7	270.8	12.0	11.5
May	286.1	277.6	12.3	11.5
June	305.8	284.1	12.6	11.6
July	318.2	289.2	12.8	11.6
August	325.0	294.6	13.0	11.7
September	324.4	299.1	13.2	11.6

1) Including school-leavers
2) Excluding school-leavers and seasonally adjusted

Source: Department of Employment

Table 5 shows data of unemployment and vacancies classified by broad occupational category. Though the figures for general manual labourers stand out as the worst affected group, a significant indication of the severe nature of the recession is given by the sharp relative increase in unemployment amongst managerial and professional workers, and manual craft (skilled) workers in the year to June 1981. These groups are traditionally the best protected against unemployment. and their greater vulnerability to lay-off is an indication of the severity of the recession, if any further indications were needed.

TABLE 4 REGIONAL UNEMPLOYMENT AND VACANCIES IN THE UK, 1981

REGION	UNEMPLOYMENT RATE[1] JUNE	SEPT	UNEMPLOYMENT/VACANCIES RATIO JUNE	SEPT
South East	7.4	8.1	18.2	16.2
East Anglia	8.4	8.9	21.5	20.0
South West	9.2	9.7	31.0	20.3
West Midlands	12.6	13.4	55.1	49.3
East Midlands	9.5	10.0	26.0	27.9
Yorks & Humber	11.0	11.7	49.5	42.4
North West	12.7	13.6	46.0	50.2
North	13.8	14.5	49.1	46.8
Wales	13.4	14.1	31.0	30.1
Scotland	12.6	13.2	25.6	25.3
Great Britain	10.4	10.9	29.9	26.8

1) Seasonally adjusted, excluding school leavers
Seasonally adjusted, excluding vacancies notified to careers offices

Source: Department of Employment

TABLE 5 UNEMPLOYMENT BY OCCUPATION IN SCOTLAND

OCCUPATIONAL GROUP	UNEMPLOYMENT[1] JUNE 1980	JUNE 1981	UNEMPLOYMENT/VACANCIES RATIO JUNE 1980	JUNE 1981
Managerial & Professional	9,581	17,079	4.9	8.2
Clerical & Related	24.739	31.743	9.2	16.2
Other Non-manual	13,756	18,941	7.9	11.9
Craft Occupations	24.080	42.535	5.6	19.8
General Labourers	73,457	97,034	71.0	126.3
Other Manual	43.132	66.943	6.3	14.6
TOTAL	188,745	274,275	10.1	20.9

1) Unemployed registered and vacancies notified at employment offices

Source: Department of Employment

REGIONAL REVIEW

UNEMPLOYMENT AND VACANCIES

With the exception of Shetland unemployment rose in all the regions of Scotland since June of this year. The Western Isles and Strathclyde continue to be the hardest hit with respective unemployment rates of 20.7% and 17.1%. Central Region which a year ago was only sixth in the league of regional unemployment blackspots has now risen to third position with an unemployment rate of 14.0%. With unemployment continuing to rise in Grampian to the September figure of 14,856 even areas with substantial oil-related activity are unable to escape from the inexorable rise in unemployment.

Table 2 shows that over the past year Borders, Shetland and Central regions have experienced the largest percentage increases in unemployment. However Strathclyde with a yearly addition of 44,320 to its total jobless figure accounted for 53% of the total increase in Scottish unemployment. Indeed this implies that over the past 12 months Strathclyde has on average lost an alarming 121 jobs a day. Moreover while Strathclyde accounts for 47% of the Scottish working population it claims 58% of total Scottish unemployment. Confronted with this perilous situation the Government's only response has been the setting up of the much heralded enterprise zone in Clydebank, a project which looks increasingly cosmetic compared to the magnitude of the problem that faces Strathclyde.

StrathclydeRegional Council estimate that in Glasgow's main housing estates of Easterhouse, Drumchapel and Castlemilk unemployment now stands at 30% or more. Within Strathclyde the Regional Council has designated 100 areas of "severe deprivation" of which 40 require priority treatment in terms of social welfare, education and policing, such are the effects of high unemployment. With redundancies still being announced daily and the Government's refusal to enact a stimulus to the national economy any local initiative seems doomed to failure. The future of Scotland's industrial heartland now looks increasingly bleak.

The vacancy figures shown in Table 1 hold little hope. The number of unfilled vacancies continues to fall with September's total standing at 13,302 compared to the June figure of 13,484. Those regions which continue to have a falling number of vacancies are Borders, Dumfries and Galloway, Fife, Highland and Strathclyde.

TABLE 1 UNEMPLOYMENT, UNEMPLOYMENT RATE AND VACANCIES NOTIFIED BY SCOTTISH REGIONS, SEPTEMBER 1981

	TOTAL UNEMPLOYMENT		UNEMPLOYMENT RATE %		VACANCIES	
Borders	3,071	(3,057)	7.8	(7.8)	202	(252)
Central	16.511	(15.489)	14.0	(13.1)	498	(439)
Dumfries and Galloway	7.451	(7.072)	13.3	(12.7)	310	(318)
Fife	17,863	(17,556)	13.1	(12.8)	585	(795)
Grampian	14,856	(14.198)	8.0	(7.6)	2.117	(2.005)
Highland	8,969	(8,295)	11.3	(10.5)	731	(1,046)
Lothian	40.377	(36.328)	11.8	(10.6)	2,257	(2.131)
Strathclyde	188,848	(177,835)	17.1	(16.1)	5,421	(5,646)
Tayside	23,690	(23,285)	13.7	(13.4)	630	(623)
Western Isles	1,718	(1,663)	20.7	(20.1)	113	(103)
Orkney	597	(555)	9.7	(9.0)	31	(28)
Shetland	414	(468)	4.7	(5.3)	120	(107)
SCOTLAND	324.365	(305,801)	14.4	(13.5)	13.302	(13,484)

Figures for June 1981 are in brackets. Unemployment totals and rates include school leavers and are not seasonally adjusted. Vacancies include those notified at Careers Offices and the Employment Services Division. Since double-counting occurs vacancy figures have to be viewed as slight overestimates in most regions.

Source: Department of Employment

TABLE 2 PERCENTAGE AND ACTUAL GROWTH IN REGIONAL UNEMPLOYMENT, SEPTEMBER 1980 - SEPTEMBER 1981

	% RISE IN UNEMPLOYMENT	ACTUAL RISE IN UNEMPLOYMENT
Borders	65.0	1.210
Central	57.5	6,027
Dumfries & Galloway	37.0	2.011
Fife	36.5	4.773
Grampian	43.1	4,474
Highland	30.8	2,116
Lothian	42.9	12.124
Strathclyde	30.7	44,320
Tayside	34.0	6,018
Western Isles	48.5	561
Orkney	29.2	135
Shetland	61.7	518
SCOTLAND	34.6	83.427

Source: Department of Employment

REGIONAL DEVELOPMENT GRANTS

In the second quarter (Q2) of 1981 the level of Regional Development Grants received by Scottish companies was £15.1m compared with £25.6m in the first quarter. These figures, expressed in current prices, reflect a continuing concern by industry regarding the medium and long term prospects for the economy, and a reluctance to expand investment programmes. It must be emphasised that there is a lag between the actual expenditure made by firms as part of their investment strategy and the payment of the subsidy which is the Regional Development Grant. Thus most of the payments recorded in Q2 are for expenditures made during 1980. Further, as this section discusses regional development grant payments in excess of £25,000, the many claims for smaller amounts do not get recorded in these statistics. Thus regions with large numbers of smaller firms may be under represented in the tables which follow.

The Regional breakdown of grants is shown in Table 3.

TABLE 3 REGIONAL DEVELOPMENT GRANTS (>£25,000) PAID IN THE YEAR TO JUNE 1981

	Q2 1981 (£000)	Q2 1980-Q2 1981 (£000)
Strathclyde	7,621	39,479
Lothian	2,017	8,323
Grampian	1,292	6,242
Fife	1,249	4,382
Highland & Western Isles	911	3,478
Tayside	781	3,118
Central	679	8,700
Borders	282	797
Dumfries & Galloway	254	1,952
	15,086	76,471

Source: British Business

TABLE 4 REGIONAL DEVELOPMENT GRANTS PER CAPITA (£)

	Q2 1981	Q1 1980-Q2 1981
Strathclyde	6.54	33.90
Lothian	5.63	23.24
Highland & Western Isles	4.78	18.25
Tayside	4.04	16.13
Fife	3.67	12.88
Border	2.82	7.97
Grampian	2.75	13.30
Central	2.50	32.08
Dumfries & Galloway	1.78	13.79

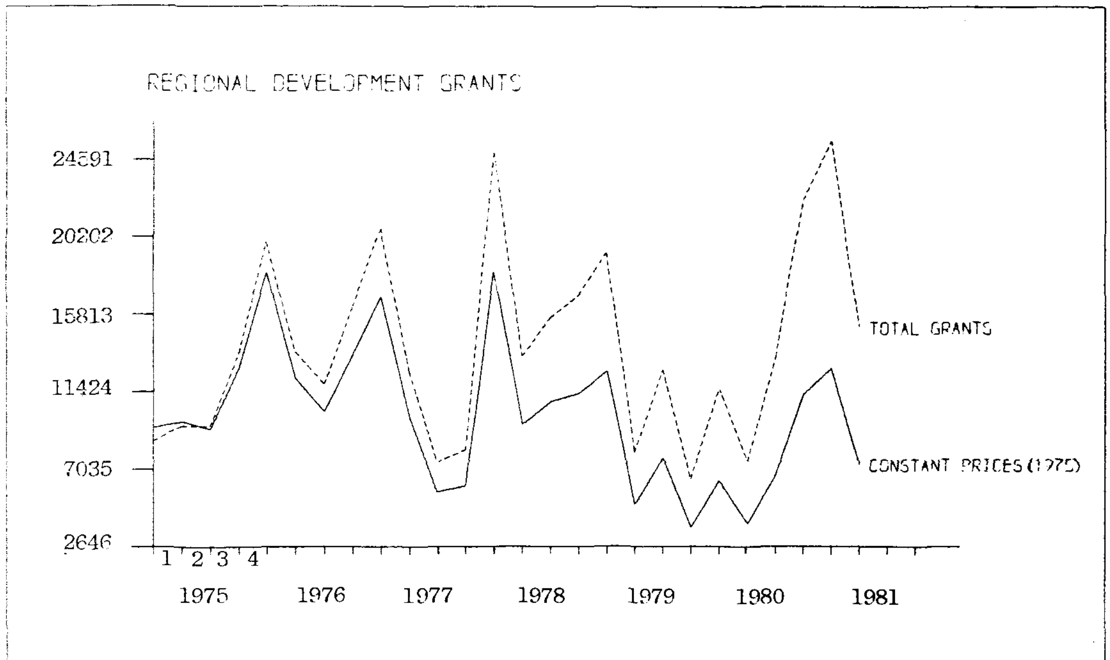
Source: Table 1 and Scottish Abstract of Statistics 1981

Strathclyde and Lothian have obtained the largest total payments as well as the largest per capita payments in the second quarter of 1981. The figures for all the regions are shown in Table 4.

Despite being the third highest recipient of grant payments in the second quarter of 1981 Grampian Region is ranked seventh on a per capita basis. BP Chemicals at Grangemouth tends to dominate the grant payments to the Central Region which suffered the largest decline in grant payments among the second quarter. Whilst only eighth ranked on a per capita basis in the second quarter, over the year Central Region is ranked second with £32.08 per head of population.

Broken down by Employment Office Area, Greenock was the largest beneficiary with RDG payments worth £2.3m in the second quarter 1981. In this case the monies were shared by only two companies: IBM UK Ltd received £1.7m and National Semiconductor UK Ltd obtained £0.6m. Kirkcaldy Employment Office Area, with a total payment of £0.8m received the next largest grant payment. Here a wider spectrum of companies and industries shared the grants. These included A H McIntosh & Co Ltd, British Aluminium Co Ltd, Carron Hydraulics and Nairn Floors Ltd.

In terms of 1975 prices the overall payments of Regional Development Grants has fallen from £12.8m in the first quarter of 1981 to £7.3m in the second quarter. At this level firms in Scotland are showing a marked reluctance to generate levels of regional development grants compatible with those of the mid 1970's. The level of grants had in fact fallen to its lowest point in the second quarter of 1980. Since then there had been a suggestion of a gradual increase in investment expenditures as reflected by the slight recovery in grant payments.



Source: British Business

Out of £39.1m of grants allocated to the UK Scotland, received £14.6m from the European Regional Development Fund as part repayment for its large contribution to the EEC. The largest grant went to Nippon Electric Company who are set to locate in Livingston. In Tayside region two companies receive approximately £1m for the production of measuring equipment and greeting cards. Grampian region also received grants for the redevelopment of the fisheries harbour and the reclamation of land for fish processing factories in Peterhead, while Fraserburgh now has provision for a new slipway. As usual a large part of the Scottish allocation went towards the provision of infrastructure by local authorities. The major recipients were the Western Isles with the grants financing the augmentation of the water supply to Stornoway along with other projects in Barra, the Uists and Lewis.

OUTLOOK AND APPRAISAL

Throughout this year economists, industrialists and politicians have been analysing and discussing the economy and making countervailing claims as to whether or not the recession is over. While many industrialists are clearly aware of the factors influencing their own business they are uncertain of the economy wide prospects. Meanwhile politicians couch their economic analysis in language which maximises their own political objectives. Similarly many economists attempt to defend the schools of thought upon which their reputations are staked. The conflicting viewpoints expressed have resulted in widespread confusion about the future prospects of both the Scottish and British economies. However, much of this confusion arises out of a failure to differentiate between the effect the current recession has had on the level of output and on the level of unemployment. It is widely recognised that a strong relationship exists between these variables and that changes in the level of unemployment lag behind changes in the level of output. It is worthwhile examining each of these factors and assessing their likely future movements.

There appears to be sufficient evidence that the trough of the output cycle has been reached although serious doubts remain about the prospects of substantial upward movement from this point. In the United Kingdom the index of industrial production has recently been above the low point of 98.2 (1975=100) recorded in March. The most recent figure is 99.4 in August 1981, a figure which remains significantly lower than the 115.2 recorded in the second quarter of 1979 when the present government took office. However, within these figures the experience of different industrial sectors varies considerably. For example, Chemicals and Metal Manufacture have picked up, while Food, Drink and Tobacco; Textiles, Leather and Clothing show a continued decline.

Within Scotland it is harder to assess current levels of output as the latest figures on industrial production refer to the last quarter of 1980. The index of industrial production then equalled 90.0 and the percentage fall in Scottish production over 1980 was 5.2% compared with 6.7% in the UK. It has been claimed by the government that the Scottish economy has weathered the recession better than the rest of the UK and that Scottish industry is poised to benefit from the economic discipline imposed by the recession. Certainly it is possible to point at a number of notable recent successes such as the Weir Group, Motorola, John Brown and Govan Shipbuilders. However, these have been balanced by a number of major closures and contractions. While some individual firms seem to have a brighter outlook, the general economic climate does not appear conducive to a sustained, economy-wide improvement in industrial output. Interest rates are high, inflation is likely to increase, real consumer spending to decrease, public contracts scarce, and our trading partners are also in recession. Consequently, even the most efficient producers will find it difficult to sell their products domestically or internationally if the level of demand remains low.

With regard to unemployment, the recessionary influence has yet to run its course. As mentioned above, the level of unemployment lags behind the level of industrial production, although the length of this lag is open to considerable debate. Indeed, it is likely that the characteristics of the lag changes depending upon the depth of the recession and employers perception of the likelihood of recovery. In general, as output declines employers hoard labour, particularly skilled workers, due to two principal factors. In the first place, redundancy payments and employment protection legislation make firing expensive and secondly it may prove difficult to attract back workers if an upturn occurs. The length and severity of the current recession have overcome these factors. Further, in the current recession much of the fall in employment was caused by the severe rundown in stocks. It is unlikely that stocks will increase to the previous level, not least because of high interest rates. Consequently, employment in Scottish production industries has fallen by more than 116,000 since June 1979. This, of course, ties in with government policy to reduce industrial overmanning and increase the level of labour productivity.

What then of future levels of employment if industrial output has bottomed out and perhaps increases marginally? Unemployment will undoubtedly keep rising for a period as not all firms will be at the bottom of the output cycle and consequently will still be shedding labour, while those moving out of the trough will initially avoid taking on more labour. This is because of the existence of excess capacity in terms of both capital and labour utilisation. Initially short-time working will be reduced and the amount of overtime worked will increase. Firms have a disincentive to take on new workers due to the national insurance surcharge and training costs. Further, if employers' perceptions of the economy remain gloomy, they may be reluctant to take on more labour. However, there also appears to be an element of capital/labour substitution. While the overall level of investment has been extremely low, that which has been taken place has increased the capital intensity of many productive processes with a detrimental effect on direct employment.

Increased efficiency is, of course, a central theme in the government's economic strategy and, as such, it is deemed undesirable for industry to take on labour to the same extent that it has been shed. If industry is to be more efficient it must produce the same level of output as before with less labour. To significantly reduce unemployment, while maintaining high productivity levels, will therefore require an increase in output above the level recorded before the current recession. Yet nobody, not even the most optimistic member of the government, is suggesting that industrial production in the British and Scottish economies can grow by approximately 15% over the next few years (the annual percentage growth required would be somewhat lower), in order to get back to the previous peak. The government therefore argue that a reduction in real wages is necessary to stimulate higher employment and believe that this fall can be brought about through high unemployment. However, it is not the unemployed who determine wages but those in employment. While high levels of unemployment exert some downward pressure on wage increases, it remains the case that any expansion of output will be accompanied by those in employment negotiating higher real wages.

The conclusion of this analysis is therefore extremely pessimistic. Regardless of the success or failure of current policy on the level of industrial output, unemployment will remain high for a considerable period (our detailed forecasts are outlined below). Yet even if the government follows the advice of a broad spectrum of economic and political opinion, including this Institute, and reflates the economy, it is unlikely that unemployment will fall in the next year. High unemployment is therefore going to be with us for a considerable period of time whichever policies are pursued and regardless of their success.

QUARTERLY ECONOMIC FORECASTS

The recent rise in interest rates will have the effect of delaying any recovery and have set back hopes for a levelling off of unemployment. Manufacturing output will stabilise in the final quarter of 1981 at around 90% of its 1975 level. Unemployment. presently at 324,000 will continue to rise, albeit at a slower rate, reaching around 347,000 by the third quarter of 1982.

	1981			1982		
	2	3	4	1	2	3
Manufacturing Output UK (1975 = 100)	89	90	91	91	92	92
Manufacturing Output Scotland (1975 = 100)	88	90	90	91	91	92
Unemployment - Scotland (000's)	305	325	330	340	344	347

Beyond this, much will depend on policies adopted over the next six months. However as outlined above, even if this represents a peak no substantial fall can be expected.