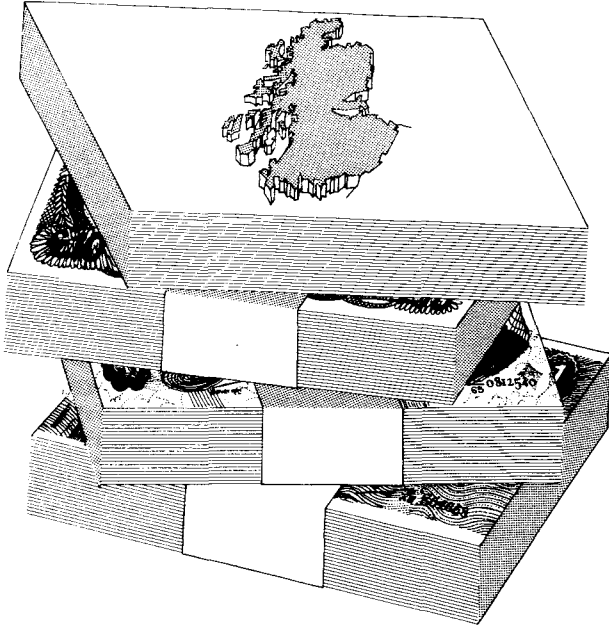

The Scottish Economy

Indicators of Economic Activity

OVERTIME AND SHORT-TIME WORKING

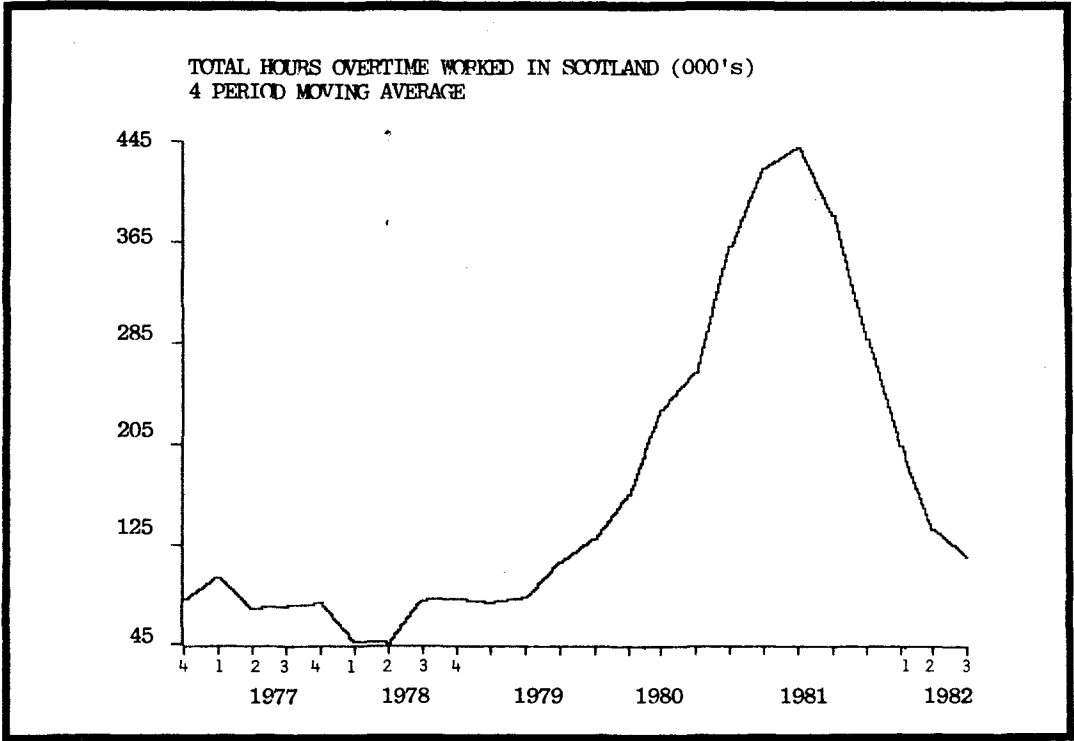


In previous issues of this **Commentary**, the latest figures from the index of production for Scotland been reported. An unfortunate feature of these data is that they are normally published with anything up to a nine-month lag. A further problem which bedevils interpretation is that the values reported are often subject to revision. Thus there has occurred inconsistencies in previous discussions of movements in output. Until these deficiencies in the production of the index are corrected it is thought that analyses of overtime and short-time working may more adequately mirror prospects for the economy. Increased short-time working and reduced overtime may generally be taken to indicate a fall-back in the general level of economic activity and, conversely, a decline in short-time working and

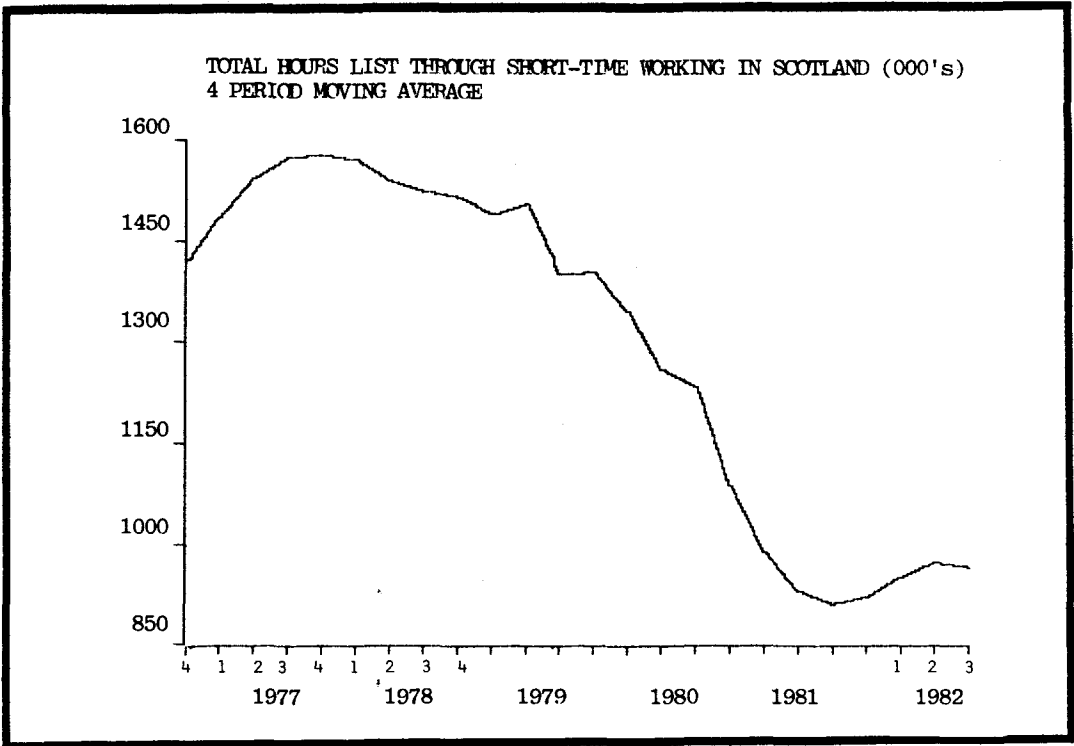
increases in overtime are likely to signal a more buoyant outlook. This basic guide will, however, be subject to qualification in the light of other information concerning the measurement of activity in the economy.

Since the first quarter of 1979, there has been a consistent decline in the total hours of overtime worked in the Scottish economy. There has been a parallel fall in the number of operatives working overtime. The most recent figures for the third quarter of 1982, show a fall of 117.5 thousand in total hours of overtime. A comparison of the latest four quarters with the previous four quarters, however, shows a 6% growth. This probably reflects the increase in output which was experienced in the first half of 1982. Most recent indicators suggest that this mild recovery in output is unlikely to be sustained and this impression would indeed seem to be confirmed by the overtime recorded in the third quarter.

A review of the short-time working data for Scotland shows a sustained increase in short-time working from the first quarter of 1979 through to the second quarter of 1981. Thereafter, short-time working has returned to about its 1979 level. The increase in short-time working observed through to 1981 may be viewed as reflecting depressed levels of economic activity in the economy as a whole. The subsequent tapering-off and return to more normal levels is likely to have been the consequence of two factors. First, the termination of the short-time working scheme, which only lasts for six months, for a given worker. Second, the realisation that the new orders required to retain employees were unlikely to be forthcoming. Taken



Source: Department of Employment Gazette



Source: Department of Employment Gazette

together, these influences are likely to have led to a substitution of redundancies for short-time working.

CBI SURVEY

The latest CBI Industrial Trends Survey reinforces the depressing picture painted by other statistics. The general barometer of business confidence, once again, shows a balance of respondents who view the future with less optimism than they did in the previous survey. This is firmly reflected in the figures for investments over the next twelve months which, for buildings and plant and machinery, show an average balance of 26% of respondents planning to authorise less expenditure than over the previous twelve months. Export prospects, nonetheless, appear better than they have done in the recent past. The fall in the international value of sterling, further established by the recent fall in the price of oil, may explain why there is now a 1% balance of respondents who view export prospects favourably. While this may appear a slender basis indeed for optimism, it should be viewed against a preceeding balance of 50% who viewed export prospects as being depressed.

Any buoyancy in overseas demand will, however, take some time to feed through to domestic activity and employment. In the meantime, the CBI report indicates that output and employment prospects are likely to continue in the same depressed vein that is now commonplace.

BANK ADVANCES

Despite the depressed level of economic activity elsewhere in the economy, advances by the Scottish Clearing Banks, as at November 1982, maintain the growth which has been in evidence over the past year. Total advances to UK residents increased by £231m over the quarter, bringing the year's total advances to £1,104m. As has been the case previously, advances to the personal sector exhibit the most pronounced growth. Unfortunately, the consumption expenditures thus financed, in large measure, leak into imports.

COMPANY FORMATIONS AND DISSOLUTIONS

For the last quarter of 1982 the number of companies incorporated in Scotland was 1,112; the number of dissolutions stood at 591. Both these figures are relatively large by previous years standards, and reflect the general flux and reorganisation in economic life associated with a depressed economy. As previously noted in this Commentary, however, the figures are likely to reflect not only economic but also institutional factors.

CONSTRUCTION

The total value of new orders received by contractors in Scotland fell in the third quarter of 1982 to £226m. This represents a 20% fall in the value of total orders over the previous quarter. The brunt of this decline in orders was felt in the private sector, where a 36% fall was recorded. Previously, it has been public sector orders which have been affected most. While some part of the recorded decline may be attributable to seasonal and other transient factors, an upturn in construction, which would normally be expected to herald improvement in the remainder of the economy, is not yet apparent.

Industrial Performance

AGRICULTURE

The EEC has proposed an average increase of 4.5% in farming prices for 1983. Increased prices for livestock will be above average, but price rises below the average are proposed for commodities in surplus, including milk, cereals, sugar and wine. The payment of co-responsibility levies would reduce the intended producers' returns to levels which some countries may find politically unacceptable. A factor which will be given consideration by the agricultural negotiators is the increasing disaffection of the United States for the operations of the CAP, and its impact on American farmers. In particular, the United States is critical of support prices which lead to production levels in excess of community needs, and the disposal of those surpluses onto world markets, encouraged by export subsidies. Meetings are taking place between the US and the EEC to discuss all aspects of agricultural trade, but one of the main issues is the divergence between world prices and community support prices.

Production of milk in the SMMB area in the first ten months of 1982 was 6.5% higher than in the same period of 1981, and continued to increase for the rest of the year. The returns to farmers have been depressed because of the increase in output throughout the EEC. In addition to the co-responsibility levy, there is a possibility that quotas will be implemented in the EEC to reduce the milk surplus, but it may prove difficult to find a quota system that is acceptable to all members.

Grain surplus to UK requirements is being disposed of by selling into intervention, and by exporting outwith the EEC. However, not all of the surplus has been accounted for, with barley in a relatively worse position than wheat - estimates suggest that by January, disposals of wheat would have been about 80%, while disposal of barley would have been below 70%.

FISHING

Total landings of fish in Scotland, by UK vessels, in the third quarter of 1982 were 160,900 tonnes, 7% lower than the same period of 1981. The decrease in landings can be attributed mainly to the heavily reduced mackerel catch. The total value of landings, at £42.4m, was 14% higher than for the corresponding period of 1981. The increase in value was shared by most of the main species, with the exceptions of haddock and whiting where prices fell back slightly.

The member states of the EEC have finally succeeded in establishing a Common Fisheries Policy, which will be effective for 20 years. Within the framework of the Policy, annual discussions will be concerned with the size of the total allowable catch and the level of guaranteed prices. This suggests that problems of disposal of excess supplies of fish may arise in the future.

Under the agreement, Britain has been allocated 37.3% of the seven main edible species, and this share is guaranteed for the duration of the CFP. England and Wales are to have a six mile exclusion zone, while Scotland will have an exclusion zone of twelve miles round most of the coast, although some countries have retained their rights to fish off parts of the West Coast up to the six mile limit. The Shetland conservation area remains intact for the time being. Although Scottish fishermen could have hoped for more from the CFP, the existence of a policy has itself become of value. It provides the fishing

industry with a basis from which the re-organisation of the fleet can proceed, with assistance from the EEC's £140m grant, and from the UK government. An immediate benefit of the CFP is that access agreements with Norway, Canada and Iceland can be resumed - these could not proceed until a consensus was reached in the Community.

OIL AND GAS

Crude oil production in the third quarter of 1982 totalled 27.0 million tonnes, an increase of 3.9 million tonnes over the same period in 1981. By December 1982, production had reached an alltime high of 2.25mbpd. In the final quarter of 1982, indigenous natural gas supplies to the public system were 4.02 billion therms, which was actually 2.6% less than in the 1981 equivalent period. Total indigenous gas supplied in 1982 was 12.91 billion therms, virtually the same as in 1981.

Though the government pronounced itself 'satisfied' with the response to the eighth licensing round, it is clear that there were far fewer applications for the 184 blocks than had been made in the seventh round. Most of the interest in the eighth round was in potential gasbearing blocks in the southern North Sea. The fifteen auctioned blocks are expected to raise about £30 million for the government.

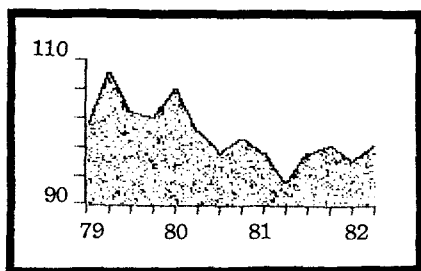
Exploration activity remained at high levels in the fourth quarter and in December Britoil announced a promising new oilfield some forty miles off Peterhead. The field may contain reserves of 100mb with a possible peak flow rate of 50-60th bpd. Three new gas fields are likely to be developed this year at a total cost of £1bn: Shell/Esso's SE Indefatigable, Conoco's South Viking and Conoco's Broken Bank. Total gas reserves in these fields are estimated to be 1,200bn cu ft to 1,700bn cu ft. Development applications are also expected in 1983 for the Brae, SE Forties, Balmoral (and one other) oilfields.

Government tax revenues from oil and gas in December 1982 totalled £850 million: over £1 million per hour. Since oil is priced in dollars, the recent fall in sterling has had the effect of **increasing** government actual and projected oil tax revenues. It is estimated that a 10c fall in the dollar value of sterling increases government revenue by approximately £500 million p.a.

The continuing world glut of oil has created severe strains within OPEC, culminating in a complete breakdown in the cartel's pricing/production negotiations in Geneva in January. This disarray in OPEC has reinforced speculation that crude oil prices may fall significantly in the next few months. Certainly there is already strong downward pressure on prices: North Sea crude has recently traded at \$29.50pb in spot markets compared with its reference price of \$33.50pb. As a major world oil producer, changes in the price of crude are clearly of importance to the UK, but the overall effect on the UK economy is difficult to gauge, involving as it does many different factors. Consider, for example, the effect of a fall in crude price on government oil tax revenues. A fall in price of \$1pb **directly** reduces UK tax revenue by approximately £250m. However, sterling is a petrocurrency and may weaken vis-a-vis the dollar as a result of the oil price fall. As noted above, since oil prices are denominated in dollars, this exchange rate effect will tend to increase the sterling value of tax revenues. Very roughly, a \$1pb fall in oil prices accompanied by a 5c fall in the dollar value of sterling will leave UK oil tax revenues unchanged.

One effect does seem clear, however: the North Sea is a high cost oil province where production costs in existing fields can be as high as \$20pb. A significant fall in crude prices may lead to the abandonment of development plans for some marginal fields, where costs are even higher.

FOOD, DRINK AND TOBACCO



Scottish output in the second quarter of 1982 rose by 2% to an index level of 98. In the year to June 1982 production was 1% higher than in the preceding twelve months, while UK output was unchanged over the same period. The Scottish second quarter index reveals production to be 5% above the low point reached in mid-1981, but given the erratic pattern of output in the Scottish sector, it is difficult to say whether this improvement in performance will continue.

In the January 1983 CBI survey, a balance of 8% of respondents view their general business situation with less optimism than four months previously, with exports a notable area of concern. Although the balance of 37% reporting more pessimism about export prospects for the coming year has changed little from the previous survey, there has been a considerable increase in the proportion of respondents stating that present export orders are below normal, and, on balance, 77% expect this situation to continue in the coming months. Import restrictions, and political and economic conditions abroad are cited as the main difficulties facing exports. Some increase was reported in the volume of output in the four months to January, but this is not expected to continue in the next four months. The factors likely to limit output are a lack of orders or sales, and in some cases, plant capacity.

WHISKY

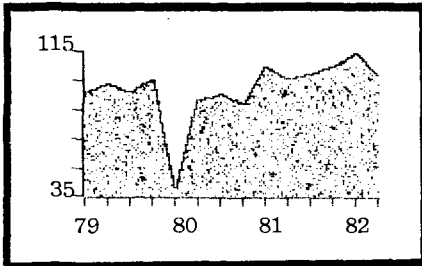
Whisky production in the third quarter of 1982, the industry's traditional low period, was 47,855 thousand litres (pure alcohol). While representing an increase in production of 17.5% over the same period of 1981, this level is nevertheless substantially below those achieved in previous years. The financial burden of holding high levels of stocks has led firms to reduce current production levels.

Total exports of whisky in the first nine months of 1982 were 179,170 thousand litres (pure alcohol), worth £620.7m. The industry's export performance has improved, with the 1982 result only slightly below that of the same period of 1980. Bottled blends, which account for over 60% of whisky exports, were 7% below 1980's level, while the export of bottled malts enjoyed an increase of 7.7%. However, as much of the recovery can be attributed to the increased export of bulk blends, up by 13% over 1980, this improvement is less encouraging to the domestic industry than it might otherwise have been.

The Chivas company will make 220 workers redundant at their plants in Dalmuir, Beith and Paisley. The redundancies will take place in April, and are the outcome of falling orders. Seagram Distillers are to reduce production at their Speyside distilleries, involving the loss of about 70 jobs.

DCL intend to close the John Haig plant at Markinch, resulting in 340 redundancies by mid-1983. Production of Haig whiskies will be transferred to a new plant near Leven along with 220 Markinch workers.

METAL MANUFACTURE



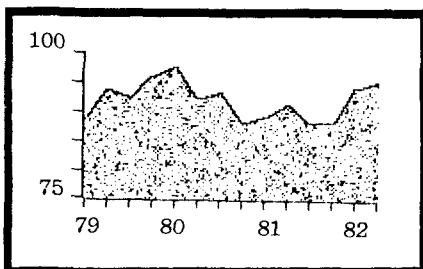
As expected, the index for metal manufacture fell back 9% during the second quarter of 1982. The subsequent decline in demand for steel and the rise in imports indicate that the index for the last two quarters will report further falls. Other sources record UK 1982 output levels dropping to a 16-year low.

The CBI January 1983 Survey shows there has been some slackening in pessimism, particularly about prospects in export markets only 56% being less optimistic compared with 83% in October. Over 90% recorded below normal order books and stocks of finished goods have risen. More recently, 800 redundancies have been announced at the Alcan plant at Falkirk, with the possibility of total closure in the near future.

The future for steel production is still extremely bleak and there is no sign of a recovery in user industries. After sustained public and political pressure the government announced in December that Ravenscraig would remain open. The chairman of British Steel has been asked to prepare a three year corporate plan incorporating the five existing sites. Break even point for the Corporation has been put back to 1984/85. The plan is to be submitted later in February and further partial closures are expected.

After the initial relief at the continued existence of Ravenscraig a new uncertainty has been growing involving the routing of orders to the plant and the proposals to concentrate on high cost semi-finished slab products for export. However, the plant has recently won two small but significant orders from motor vehicle manufacturers.

ENGINEERING AND ALLIED INDUSTRIES



The index of production for the second quarter of 1982 records little change in output for the industry as a whole. However one feature worth noting was that, due to a number of oil-related contracts, mechanical and instrument engineering rose 8% to return the highest figure since 1977.

Returns to the CBI January 1983 Survey are slightly less pessimistic about the outlook and about export prospects in particular. However, 72% were working below capacity and over 70% reported that order books were below normal.

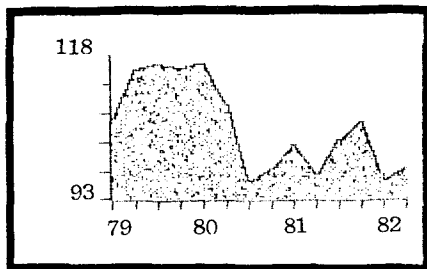
Since the autumn of 1982 a number of companies have reacted to lack of demand in the home market and the increasingly competitive overseas markets by proposing cutbacks in labour and withholding new investment. Exports now account for over 70% of Babcock Power's production in a highly competitive market for boilers. Although recent modernisation means that they now operate extremely competitive equipment with a highly successful participatory industrial relations policy the company has announced that they will have to lose 500 of the 3,200 workforce during 1983. They do not intend to introduce compulsory redundancies although this may be difficult to avoid. At Rolls Royce's Hillington factory it is also hoped that the 900 job cutback, to be achieved before the end of the year, will be based on voluntary redundancies only. In the light of the current recession in the aircraft industry the workload fell at Hillington during 1982 and it is expected to fall again during 1983. The company anticipates that market competition in aircraft machine components will intensify with the entry of Japanese companies.

There is uncertainty about the future of Sunbeam Electric at East Kilbride. Closure of the electric appliance factory would be a considerable disappointment as, before the parent company was acquired in 1981 by Allegheny International, it was scheduled to be the European manufacturing headquarters. Production of Hoover's new cleaners and motors for washing machines has started at Cambuslang. Productivity agreements have been completed and the future for the current 1,800 workforce is now more secure than at any time in the immediate past.

In electronics there has been some expansion and a number of setbacks. As anticipated, IBM is to make its Greenock factory the European base for production of its personal computer. There is to be added investment of £30million at the plant with a further 200 new jobs. Manufacture is to begin in June. Mitsubishi are to produce video recorders at their Haddington plant with a possibility of the transfer of videos to a new site in Livingston if output expands sufficiently. The development will mean increasing the current 230 workforce by 100. However, Burroughs at Glenrothes is to close with the transfer of production, and some of the jobs to Cumbernauld. Tentative plans for a new semiconductor plant at Livingston investigated by an American company are not to be taken further.

The probable transfer of production of the Nimslo 3D Camera to Japan and of watch making to France has left Timex in Dundee in a vulnerable position. It is now thought that the 1,923 jobs losses announced in January will occur without industrial action. A large proportion of the remaining 2,000 employees at Dundee are dependent on the Sinclair contract, although after a strike in November, Sinclair stated that it would review alternative sources of supply. The future existence of the plant depends largely on this contract and on the development of the flat TV tube and other new information technology products. It is feared that if production goes overseas it could have a detrimental effect on morale and on the development of new technologies in Dundee.

CHEMICALS, COAL AND PETROLEUM PRODUCTS



Production in Scotland in the second quarter of 1982, at an index level of 98, was 2% above the previous quarter's level. In the year to June 1982, Scottish output increased by 2% over the previous year, although production in the first half of 1982 was lower than that of the corresponding period of 1981.

The continued reduction of capacity in iron, steel and aluminium manufacture will mean that further falls in demand for coal are likely. At present, stocks of coal in the UK are at record levels, although production of coal has been falling.

SHIPBUILDING AND VEHICLES

British Shipbuilders' gloomy November report on the state of the industry foresees worsening prospects in all sectors, with the world market remaining depressed. The Corporation returned a £29m loss for the first half of their financial year and the government had held up approval of their corporate plan. Although there has been a sharp contraction in employment since nationalisation, a further 2,000 jobs are to go in England by April. Unless there are immediate orders further redundancies can be expected.

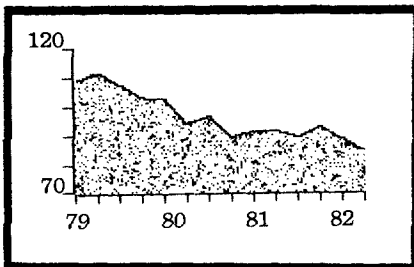
In Scotland the Scott Lithgow yard is considered the most vulnerable. It is assumed in British Shipbuilders' plan that there will be no new off-shore orders placed until the end of 1983 at the earliest. Scott Lithgow, who have been designated an offshore, yard have to face the possibility of no new North Sea orders this year together with a reputation for industrial unrest and late deliveries on their two latest completed contracts. At Govan, in the merchant shipping sector, orders are also urgently needed. Orders at Yarrow's are in a healthy state. They recently obtained orders for two replacement naval frigates for ships destroyed in the South Atlantic. The two smaller yards Hall Russell and Ferguson/Ailsa have also good order books. There was a recent unexpected interest in Robb Caledon and the defunct George Brown yards by a London-based company in possession of a contract for five ships. They may now build the vessels at the Denny yard in Dumbarton having secured a guarantee of £100,000 from the SDA.

Howard Doris have received a contract from British Gas to construct support decks and modules for a platform in the Morecambe Bay gas field. This, together with an associated order, should ensure full employment at the yard during 1983. Also for the Morecambe Bay project, Lewis Offshore have been commissioned to undertake piling work on the offshore structures. Highland Fabricators hope to obtain the repair contract for Conoco's Hutton field platform (for which they, in fact, have the original construction contract). There is, however, strong competition from Japan.

The recently announced development programmes for the Clyde and North Alwyn fields should result in three new platform contracts being put out to tender during 1983.

The fall in exports has put a further 565 jobs in Leyland's Bathgate truck plant in jeopardy. However British Leyland have agreed a collaborative venture with Cummins to develop a light truck engine at Bathgate. Modernisation, as part of a £35m investment plan, is to start early in 1983. After losing two thirds of their workforce since 1981 the remaining 1,000 employees at the Caterpillar tractor plant at Uddingston have agreed to initiate short time working until there is an upturn in export demand. After a number of setbacks the Cumnock based Gomba Stonefield company has won its first major contract, worth £14m, to supply cross-country trucks to Malaysia.

TEXTILES, LEATHER AND CLOTHING



Scottish output continued to fall, and the 1982 second quarter index of 84 represented a fall of 4% over the previous quarter, and is the lowest level yet achieved by this sector. Production in Scotland and in the UK is on a continuing downward path, with the decline in output being relatively more severe in the UK than in Scotland.

A swing away from pessimism about general business conditions is displayed in the response to the January 1983 CBI survey. The source of this optimism is not, however, a positive improvement in the outlook for textiles, but rather a slowing down of the sector's decline. A balance of 52% of respondents experienced a fall in the volume of output between October and January, and on balance 16% expect a similar trend in the next few months. Respondents also anticipate net reductions in employment, exports and new orders, but to a less severe extent than reported in the previous survey.

BRICKS, POTTERY, GLASS AND CEMENT

Scottish production in the second quarter of 1982 fell by 5% to an index level of 74. In the year to June 1982, output in Scotland was 4% lower than in the previous year, while UK output was 3% lower over the same period. This sector is heavily dependent on activity in the construction industry, where no immediate rise in output is expected, thus recovery in this sector is unlikely.

PAPER, PRINTING AND PUBLISHING

Output in this sector has been severely reduced since 1980, and continued to fall in the second quarter of 1982, when the index level of 88 revealed that production was 5% lower than in the previous quarter. In the twelve months to June 1982, Scottish output fell below the level of the previous year by 4%, while UK output was 3% lower over the same period.

Employment and Unemployment

The quarterly employment estimates which normally appear in this section of each Commentary are derived from the quarterly series of employees in employment published by the Department of Employment. These series are calculated by projecting forward from results of the previous census of employment using additional information obtained from a sample of firms at intervals between censuses. Because of inaccuracies associated with the sampling basis of the quarterly enquiry, post-census estimates of employment are necessarily provisional until the next census, the results of which are used to revise the short-term estimates. The quarterly series for Scotland revised in the light of the results of the September 1981 census are not yet available but will be published in the next issue of the Commentary.

Table 1 and Table 2 have been constructed from the first results of the September 1981 census to allow some preliminary comparison of the census results and the quarterly estimates. The tables show that, excepting service sector employment and part-time female employment, the census results confirm the trends in employment between 1978 and 1981 indicated by the quarterly estimates, although there are considerable differences with regard to the magnitude of the changes. Some of the differences between the census figures and the quarterly series stem from adjustments and uncertainties associated with the census operation itself. In addition, with the cancellation of the 1979 and 1980 censuses, the opportunities they would have presented to realign the quarterly estimates were lost. However, according to the Department of Employment, the main reason for the divergence is the inability of the quarterly employment enquiries to "provide a comprehensive measure either of firms going out of business or of new businesses becoming established. This is particularly significant in the service industries where changes of this kind are numerous and often involve small firms".

The quarterly estimates have therefore been relatively poor indicators of service sector employment and also of female employment which is heavily concentrated in the service sector.

Table 1 shows that, according to census data, there were 1,970 thousand employees in employment in Scotland in September 1981, compared to 2,067 thousand in June 1978 when the previous census was taken. This represents a decline in total employment of 97 thousand (or 4.7%) over the period whereas in England and Wales, the decline was 1,029 thousand (or 5.1%). Overall, the reduction in employment was less severe than that indicated by the quarterly estimates - 155 thousand (or 7.5%) for Scotland and 1,509 thousand (or 7.5%) for England and Wales - primarily because the quarterly estimates failed to reflect the expansion of service sector employment which occurred between the two censuses (see Table 2). The new figures further emphasise the shift in the structure of employment in Scotland towards the service sector and away from manufacturing. The 1981 census indicates a service/manufacturing ratio of 2.54 compared to 1.97 in 1978. The 1981 census data also indicate that Scottish employment as a proportion of British employment for September 1981 will be slightly higher than previously thought (9.32% as opposed to 9.29%).

TABLE 1 COMPARISON BETWEEN CENSUS AND QUARTERLY SERIES CHANGES BETWEEN JUNE 1978 AND SEPTEMBER 1981 IN NUMBER OF EMPLOYEES IN EMPLOYMENT (THOUSANDS)

Scotland	Census 1978	Census 1981	Quat Est 1981	Changes 1978 to 1981	
				Census*	Quarterly Series**
Total	2,067	1,970	1,912	- 97	- 155
Male	1,200	1,109	1,089	- 91	- 112
Female:	867	860	924	- 7	- 43
Full-time	553	527	518	- 26	- 35
Part-time	314	333	306	+ 19	- 8
England and Wales					
Total	20,186	19,157	18,677	-1,029	-1,509
Male	11,896	11,022	10,838	- 874	-1,058
Female:	8,291	8,137	7,838	- 154	- 453
Full-time	4,926	4,720	4,648	- 206	- 278
Part-time	3,365	3,417	3,190	- 52	- 175

TABLE 2 COMPARISON BETWEEN CENSUS AND QUARTERLY SERIES CHANGES IN EMPLOYMENT BETWEEN JUNE 1978 AND SEPTEMBER 1981 BY SECTOR (THOUSANDS)

Scotland	Census 1978	Census 1981	Quat Est 1981	Change 1978 to 1981	
				Census*	Quarterly Series**
Agriculture, Forestry & Fishing	48	44	44	- 4	- 4
Manufacturing	604	485	479	- 119	- 125
Construction, Mining & Utilities	227	209	210	- 18	- 18
Services	1,188	1,232	1,179	44	- 9
Total	2,067	1,970	1,912	- 97	- 155
England and Wales					
Agriculture, Forestry & Fishing	325	327	327	+ 2	+ 2
Manufacturing	6,513	5,439	5,393	-1,074	-1,120
Construction, Mining & Utilities	1,679	1,552	1,530	- 127	- 149
Services	11,670	11,840	11,427	+ 170	- 243
Total	20,186	19,157	18,677	-1,029	-1,509

*Change in employment between June 1978 and September 1981 as shown by the censuses.

**Change in employment between June 1978 and September 1981 as shown by the quarterly survey estimates

Source: Department of Employment

Trends in male and female employment are, of course, closely linked with the sectoral changes summarised in Table 2. Reflecting the disproportionately large job losses in manufacturing where males have a greater representation, employment decline over the period has been significantly greater for male workers, the number of whom fell by 7.6% in Scotland and 7.4% in England and Wales while the number of female employees fell in total by only 0.8% in Scotland and 1.9% in England and Wales. The census figures reveal that the effect of the fall in full-time employment on total female employment was tempered by increases in employment of part-time workers which the quarterly employment enquiries did not identify. It is likely that the service sector offered more opportunities for an expansion of part-time working. As a result of these developments, the proportion of female to male workers in Scotland has risen from .72 in 1978 to .78 in September 1981 and the percentage of parttime female workers in total female workers has increased from 36.2% to 38.7% over the same period. There are not yet sufficient data from the 1981 census to enable a break-down of male employment into full and part-time employment but it is unlikely that the percentage of part-time workers in total male employment will differ significantly from the 4.8% recorded for Scotland in the 1978 census and the 5.8% recorded for Great Britain in the 1981 census.

Clearly a census of employment provides important benchmark figures with which to realign estimates obtained from sample enquiries. Censuses, however, are expensive and complex to carry out and the decision whether or not to hold one in 1983 has not yet been announced.

Total unemployment as recorded by the new claimant basis rose rapidly in January 1983 to 352,757 (16.2%), an increase of 19,554 over the December 1982 figure. Included in the January total are an additional 7,970 young people who left school at Christmas. Excluding school leavers, January's seasonally adjusted figure of 317,300 is 4,300 up on the previous month's total. The main changes that have occurred in unemployment since the introduction in October 1982 of the new method of deriving unemployment figures from records of claimants to benefits held at Unemployment Benefit Offices are summarised in Table 3.

TABLE 3 CHANGES IN UNEMPLOYMENT IN SCOTLAND OVER THE QUARTER TO JANUARY 1983 (NEW CLAIMANT BASIS)

SCOTLAND	OCT '82	JAN '83	CHANGE (number)	CHANGE (%)
Total Unemployed incl. School Leavers	327,045	352,757	25,712	7.9
School Leavers	21,800	25,278	3,478	16.0
Seasonally Adjusted Unemployed excl. School Leavers	307,100	317,300	10,200	3.3
Total Unemployment Rate	15.0	16.2		
Seasonally Adjusted Rate	14.1	14.6		

Source: Department of Employment Press Notices

Aside from the controversy over the appropriateness of the particular method now used to provide a measure of unemployment, there are some additional reservations regarding the usefulness of the figures being published on the new basis. For example, the seasonally adjusted figures shown in Figure 1 will be updated on a month to month basis until more experience is gained of the effects of seasonal factors on the new series. Secondly, only from May 1982 onwards are actual figures on the new basis available. Figures prior to that data are derived from figures calculated on the old basis which were then adjusted to reflect the changes implied by the new method. As Figure 2 illustrates, however, the method of backcasting from May has resulted in the new and the old series lying almost parallel, a characteristic not displayed from May onwards. It would seem wise therefore to use back figures with some caution. Neither series, however, offers much comfort with regard to unemployment levels in the short-term and the trend in unemployment remains unmistakably upwards. The new method of estimating unemployment is the subject of an article on page 28 of this issue.

FIGURE 1

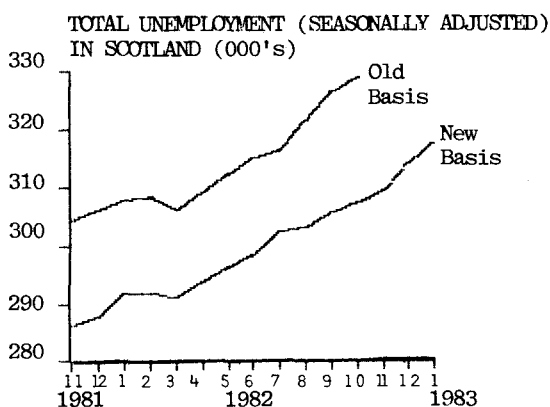


FIGURE 2



From the regional pattern of seasonally adjusted unemployment outlined in Table 4, it can be shown that all regions registered increases in unemployment over the three months to January 1983. The 3.3% increase recorded in Scotland over the period was marginally below the average increase of 3.4% for the UK as a whole. Scotland's unemployment position relative to the other regions remained unchanged over the quarter, with Wales, North-West, the North and West Midlands continuing to have higher rates of seasonally adjusted unemployment than the 14.1% and 14.6% in Scotland in October 1982 and January 1983 respectively.

With the exception of Northern Ireland, all regions of the UK recorded increases in the number of vacancies (seasonally-adjusted) notified to Job Centres in January 1983. For more than half the regions, these increases were insufficiently large to offset the unemployment increases and consequently, for these regions, the unemployment/vacancies ratios rose. Although the vacancies noted here represent approximately only one third of all vacancies unfilled, they provide an indication that vacancies in general remain at relatively low levels. By January 1983, however, seasonally adjusted vacancies in Scotland and in the UK stood at their highest levels since mid-1980.

TABLE 4 REGIONAL UNEMPLOYMENT AND VACANCIES IN THE UK IN JANUARY 1983

	UNEMPLOYED ¹ (000'S)		UNEMPLOYMENT ¹ RATE (%)		VACANCIES ² (000'S)		UNEMPLOYMENT/ ^{1,2} VACANCIES RATIO	
	1982	1983	1982	1983	1982	1983	1982	1983
	Oct.	Jan.	Oct.	Jan.	Oct.	Jan.	Oct.	Jan.
South-East	664.2	693.9	9.0	9.4	41.1	43.6	16.2	15.9
East Anglia	72.7	77.1	10.4	11.1	3.8	4.6	19.1	16.8
South West	179.1	187.6	10.9	11.4	11.1	11.2	16.1	16.8
West Midlands	331.5	346.4	15.0	15.6	7.5	7.6	44.2	45.6
East Midlands	175.0	185.5	11.1	11.8	7.2	7.4	24.3	25.1
Yorks & Humber	267.8	279.9	13.3	13.8	6.4	8.2	41.8	34.1
North West	403.5	419.0	14.8	15.4	10.7	11.9	37.7	35.2
North	210.9	216.4	16.2	16.7	5.3	5.4	39.8	40.1
Wales	160.6	166.6	15.6	16.2	6.1	6.1	26.3	27.3
Scotland	307.1	317.3	14.1	14.6	13.5	15.2	22.7	20.9
Great Britain	2,780.4	2,874.7	12.2	12.6	112.7	120.8	24.7	23.8
N. Ireland	105.8	109.4	19.0	19.6	1.2	1.2	88.2	91.2
UK	2,885.4	2,984.1	12.4	12.8	113.9	122.0	25.3	24.5

1) Seasonally adjusted excluding school leavers.

2) Seasonally adjusted excluding vacancies notified to careers offices.

Source: Department of Employment Press Notices

Regional Review

The overall level of Scottish unemployment rose over the last quarter by 25,712 from 15.0% to 16.2% on the seasonally unadjusted totals. (The discrepancy in the figures for October 1982 when compared to those which appeared in the last Commentary, is explained by the change in the method of calculating the unemployment rate.) Within the regions particularly marked increases have occurred in Shetland and Highland which went up from 4.9% and 13.4% respectively, to 7.5% and 15.7%. Indeed, using the new basis for calculation, all of Scotland's regions suffer an increase in their overall rate.

**TABLE 1 UNEMPLOYMENT AND VACANCIES NOTIFIED
BY SCOTTISH REGIONS, JANUARY 1983**

	TOTAL UNEMPLOYMENT	UNEMPLOYMENT RATE %	VACANCIES
Borders	4,109 (3,353)	10.5 (9.7)	226 (284)
Central	19,644 (18,159)	16.4 (15.2)	674 (668)
Dumfries and Galloway	8,252 (7,587)	15.0 (13.8)	277 (298)
Fife	19,278 (17,437)	14.2 (12.8)	592 (723)
Grampian	17,670 (15,500)	9.5 (8.3)	1,929 (2,534)
Highlands	12,108 (10,295)	15.7 (13.4)	668 (767)
Lothian	45,078 (41,696)	13.0 (12.0)	1,677 (1,978)
Strathclyde	196,896 (186,102)	18.0 (17.1)	5,519 (5,926)
Tayside	25,754 (23,477)	14.7 (13.4)	604 (739)
Western Isles	2,256 (2,130)	26.2 (24.7)	79 (56)
Orkney	838 (739)	13.2 (11.6)	18 (62)
Shetlands	874 (570)	7.5 (4.9)	63 (44)
SCOTLAND	352,757 (327,045)	16.2 (15.0)	12,326 (14,079)

Figures for October 1982 are in brackets. Unemployment totals and rates include school leavers, and are not seasonally adjusted. Vacancies which are not adjusted include those notified at careers offices and the Employment Services Division. Doublecounting occurs, consequently the figures are likely to be overestimated.

Source: Department of Employment and Manpower Services Commission

The overall number of vacancies for Scotland (See Table 1) as a whole is down on last quarter by 1,753. This is reflective of an economy which continues to bump along at the bottom of a recessionary trough. The falloff in the number of vacancies, over the last three months, is particularly marked in Grampian, where the unadjusted figure shows a fall of 605, a decline of 24%. The figure for Orkney although very small in absolute terms, a reduction in the number of vacancies by 44 over the quarter, nonetheless, still represents a serious blow to the community as a whole. The percentage fall in Orkney for the same period is 71%.

REGIONAL DEVELOPMENT GRANTS

A potentially significant change which may be forthcoming in the allocation of Regional Development Grants (RDGs) was revealed recently in the national press.¹ According to the article, a government working party has proposed major changes in the amount and distribution of the grants. The major recommendations, as they would effect Scotland, are as follows:

1. Ending automatic payment of RDGs to companies setting up in assisted areas.
2. Probable cuts to those parts of Scotland currently designated as "assisted areas".
3. Permission to be given to other areas of the UK to improve the portfolio of incentives offered to attract inward investment by foreign companies.
4. A change in emphasis away from backing manufacturing ventures and towards the development of service sector investment.

The same article indicates that there is a belated recognition in government circles that the RDG scheme, which in 1981/82 cost £142.7million in Scotland, is insufficiently selective. As a consequence it is not cost-effective in terms of the number of jobs created. Moreover, many of the projects which received such grants would have been established anyway without the RDG incentive.

The concern surrounding the heavy bias in favour of manufacturing related assistance is understandable in light of the fact that the service sector attracted a mere 5% in industrial aid last year, despite being the sector providing the greatest employment.

During the course of the recession traditionally prosperous areas of the UK, especially the West Midlands, have been subject to a markedly serious deterioration in terms of relative unemployment. In the case of the West Midlands its unemployment rate is even greater than Scotland's. This imbalance may be rectified by awarding the West Midlands full assisted area status.

Despite the potential for controversy implicit in some of those suggestions, there are solid grounds for believing that some of the proposals are worthwhile. Thus the increase in funds for service sector projects is a good idea. The more so since this is a present and future economic growth area. This has been pointed out in a previous edition of the Commentary,² when it was proposed that the introduction of an employment criterion should be introduced into the RDG system.

One other point in favour of change stems from the lack of discrimination in such awards. In the past this has meant the granting of RDGs to projects which would have been set up in Scotland anyway. Clearly, there is a case for arguing that this represented a waste of public funds.

Nevertheless, one must be concerned about the impact on manufacturing investment in Scotland if the switch in favour of the service sector goes ahead. In the search to find a mechanism which optimises job creation in the regions - the main aim of regional policy - the continuing contribution of manufacturing to the Scottish economy, 23.9% of GDP, must be borne in mind.

For the quarter ending 31 January 1982 Scotland received £67,535,000 in Regional Development Grants (grants in excess of £25,000). This represents four months deferred plus three months ordinary funds, and as such is a one-off payment. It amounts to 33% of the UK total.

Manufacturing Employment Estimates for Scottish Regions

Table 2 shows estimates of manufacturing employment by Region and City for the period 1977 to 1981. The estimates come from the Scottish Manufacturing Establishments Record (SCOMER), an official databank of manufacturing units with over 11 employees. For the year 1981 only Strathclyde, Fife and Central have a survey coverage of over 70%, whilst for the Borders, Grampian and the Island Areas, the coverage is below 50%.

TABLE 2 MANUFACTURING EMPLOYMENT ESTIMATES BY REGION AND CITY DISTRICTS

	Employment				Percentage Change in Employment	
	1977	1978	1979	1980	1981	1977- 1981
Regions	thousands					
Borders	13.4	13.7	13.6	13.3	12.5	- 6.3
Central	35.3	34.3	34.2	33.4	29.5	-16.5
Dumfries and Galloway	12.1	11.8	11.7	11.5	11.0	- 8.8
Fife	42.0	40.8	41.5	39.1	35.6	-15.2
Grampian	35.8	35.1	34.9	31.8	28.9	-19.2
Highland	11.0	11.7	11.6	10.6	10.8	- 2.0
Lothian	65.7	66.4	67.1	65.1	58.5	-11.0
Strathclyde	328.1	318.9	311.2	278.3	244.1	-25.6
Tayside	45.7	44.6	44.3	41.2	39.2	-14.2
Islands	2.2	2.2	2.4	2.4	2.5	14.3
City Districts						
Aberdeen	27.7	21.3	21.0	18.9	17.1	-20.9
Dundee	30.9	30.0	30.1	27.5	24.7	-20.1
Edinburgh	34.8	34.9	35.3	34.8	31.5	- 9.7
Glasgow	110.3	106.8	104.1	95.0	84.4	-23.5
Scotland	591.2	579.4	572.5	526.7	472.5	-20.1

Source: Scottish Economic Bulletin, No 26, 1983,

As can be seen from the above table, the decline in manufacturing employment was particularly marked in Strathclyde which suffered a percentage decline of 25.6%, some 84,000 jobs. Central, Fife, Grampian, Lothian and Tayside all suffered losses of between 10% and 20%. The disparity between the Dundee and Tayside rate reflects the decline in the jute and shipbuilding industries in the City.

Region by region the largest percentage employment fall-offs by industry, for the years 1977-81, were as follows:

- Borders** Textiles down by 10.4% some 1,000 jobs.
- Central** Chemical and other manufacturing industries* were down by 20.9% 3,200 jobs.
- Dumfries and Galloway** Textiles, a decline of 13.6%, 800 jobs.
- Fife** Textiles down by 32.9%, 1,600. But at a fall of 21.2%, chemicals and other manufacturing accounted for 2,000 jobs.
- Grampian** Food, drink and tobacco were down by 21.8%, 3,000 jobs. This was closely followed by engineering and allied at 20.5%, some 2,000 jobs.
- Highland** The estimated decline in chemical and other manufacturing was 27%, 600 jobs.
- Lothian** Engineering and allied down by 15.4%, 4,500 jobs.
- Strathclyde** Although textiles was down by 30.1%, 14,800 jobs, it was the loss in engineering and allied which was most serious. This sector was down by 28%, around 50 thousand jobs fewer.
- Tayside** Textiles down by 27.6%, 3.4 thousand jobs. However, the 21.3% fall in engineering and allied represents an estimated fall of almost 4,000 jobs.

The percentage fall off in manufacturing jobs in Scotland for the period 1977-81 was 20.1%, 118,700 jobs. This is lower than the Department of Employment's figure of 126,000 a decline of 20.5%.

*This includes chemicals, coal and petroleum products; bricks, pottery, glass and cement; timber, furniture; paper, printing and publishing; and other manufacturing industries.

¹Sunday Standard, 'How the Cash Cuts Would Hit Scotland', 23/1/83, p16.

²Quarterly Economic Commentary, Fraser of Allander Institute, May 1982, p22.

Outlook and Appraisal

In three weeks' time the Chancellor of the Exchequer will introduce what is politically the most important budget of the last four years. This is so because it is the last budget before the next general election. It is therefore likely to be framed primarily with a view to realising political rather than economic objectives. Whatever the details of the budget, its impact on the economy may be limited. So far as a stimulus to aggregate demand is concerned, the Chancellor's options are extremely limited if he sticks to his previous plans. The difference between planned revenue and planned expenditure for 1983/84 is some £7 billion while the Chancellor's previously announced target for the PSBR in 1983/84 is that it should amount to £8 billion (2.75% of GDP). Thus the Chancellor has only about £1 billion to hand out if he is to keep to his original borrowing targets. However this is distributed, its effect as a boost to spending is almost inconsequential. It would cost £1.2 billion simply to index income tax allowances and thresholds. Yet to deviate further from his pre-set targets will be interpreted as a departure from the path of monetary orthodoxy, a course from which the government has firmly established its determination not to deviate.

Apart from the psychological signals which might be indicated by the Chancellor's adherence to or departure from the government's overall stance on the management of aggregate demand, the principal consequences of the budget depend upon what changes in incentives are brought about by changes in the regime of taxes and benefits. Any changes would take more than a year to work themselves out. Nevertheless, it is these changes which, for good or for ill, are likely to be influential in directing the future path of the economy.

As we have made clear elsewhere in this issue, some government lead is certainly required at the present time. The continuation of present trends does not present a happy prospect. All the main forecasts for the United Kingdom for the next twelve months are agreed that unemployment will continue to rise, that the rate of inflation will at best remain at around its present level, that no recovery in productive investment or exports is foreseeable, and that total output is unlikely to rise by more than two percentage points from an abysmally low level.

All such forecasts are macroeconomic, ie they deal in national aggregate statistics. The habit of thinking in national averages or aggregates, a habit to which we have become accustomed since the end of the Second World War, conceals important underlying changes which are taking place. While some industries, some occupations, and some regions are languishing, others are prospering. It is quite misleading, for example, to speak about a decline in the total stock of productive capital. Changes have taken place, and indeed are taking place at an ever increasing rate, some connected with the price of oil, others connected with progress in technology, which have drastically altered the valuation of the existing stocks of physical capital, and which have found the leadership of important sections of industry unable or unwilling to cope with the consequential adjustments in economic activity which are required. Even to speak about structural adjustments between industries is itself too general since even in the declining industries there are examples of successful firms. While it is undeniably true that the output of manufacturing as a whole has fallen

and seems likely to continue to fall, there are nevertheless some sectors within manufacturing where the balance of firms surveyed is optimistic with regard to future business prospects.

Just as it is unwise to generalise across industries, so it is with regions. Five years ago, in the January 1977 issue of this **Commentary**, we noted that the centre of economic activity in Scotland was moving from south-west to north-east. All the evidence since then, including that which is reported in pp33-36 of this issue, confirms the continuing existence of this trend. There is of course nothing inevitable about such trends; they can be reversed. But they can only be reversed by successful commercial leadership, a commodity which is not wholly absent but lacking in Scotland today. The technological revolution which is just beginning in the fields of communications, electronics, bio-technology, the exploration of the ocean floor and outer-space, offers very real opportunities for economic progress. Whether these are realised depends primarily on the existence and ability of locally-based entrepreneurs. If anyone should doubt the decisive importance of business leadership as a factor in economic success, they need only consider the case of Keiller's of Dundee.

All that government can hope to do in this connection is to make the legal and fiscal environment more rather than less conducive to the success of such entrepreneurial activity. No one can doubt the genuine goodwill and commitment towards the realisation of these objectives on the part of all political parties. Unfortunately, there is a certain lack of understanding of the processes involved. In the modern world it is absurd to suppose that market forces can always be relied upon to produce the best results, without regard to the framework within which they are constrained to operate. The government's attitude towards the proposed takeover of Anderson Strathclyde is instructive in this regard. This is Scotland's fourth largest manufacturing company, one of the few successful Glasgow-based engineering companies left. And yet the government overturned the recommendation of the majority of the Monopolies Commission (with undisguised contempt). At the same time, the government has continued to intervene in the money markets, to "defend" entirely arbitrary levels of the external rate of exchange of the pound sterling, an activity which is at best ludicrous and at worst down-right harmful.

There is no area of economic activity in which government intervention needs to be more finely judged than in the labour market. Everyone agrees that if things go on as they are, unemployment is going to continue rising for the next year or two at least. One of the contributory factors towards the high levels of unemployment which exists in this country and in the rest of Europe, and one within which is within the government's power to control, is the high level of taxation imposed on employment. If the budget can do something to bring the terms and conditions on which people are seeking work more closely into line with the terms and conditions upon which work can be made available, then the forthcoming budget will have done as much as can be reasonably expected of it.

QUARTERLY ECONOMIC FORECASTS

A modest improvement in output levels in Scottish manufacturing should be possible in the next few months. Following the very depressed levels of output in the final quarter of 1982, increased consumer demand and the

increasing competitiveness of Scottish exports should engender a small improvement in business confidence.

Prospects in the labour market will not improve, however, though the deterioration will not be as rapid as that during 1982. Based on the new method of collecting the unemployment statistics, we would expect Scottish unemployment to rise to around 362,000 by the first quarter of 1984. The full set of forecasts for manufacturing output, employment and total unemployment is shown below, though they must be regarded as more than usually tentative because of delays in production and revisions to the statistical series on output, employment and unemployment.

Quarter	1982		1983			1984	
	3	4	1	2	3	4	1
Manufacturing Output UK	88	87	89	90	91	92	94
Manufacturing Output Scotland	89	88	89	91	92	93	93
Manufacturing Employment Scotland	453	444	437	437	430	428	424
Unemployment Scotland	319	330	346	340	344	351	362