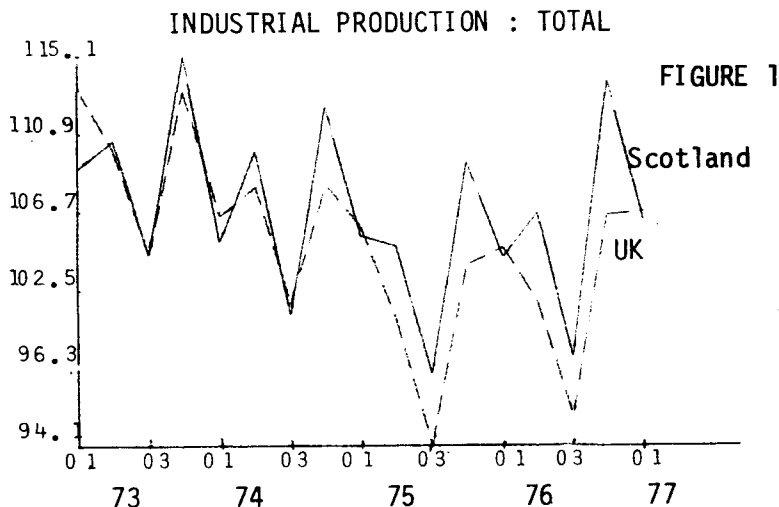


THE SCOTTISH ECONOMY

Indicators of Economic Activity

It is difficult to determine whether the fall in the index of industrial production for Scotland (see Figure 1) from 113.8 to 106.3 between the fourth quarter of 1976 and the first quarter of 1977 was due to a typical seasonal decline or to a genuine decline in the underlying trend of economic activity. The fact that the fall of 7.8 points was substantially in excess of the previous average decline between these quarters of 4.3 points suggests that the drop in output cannot be solely attributed to seasonal factors.



Source: S E P D

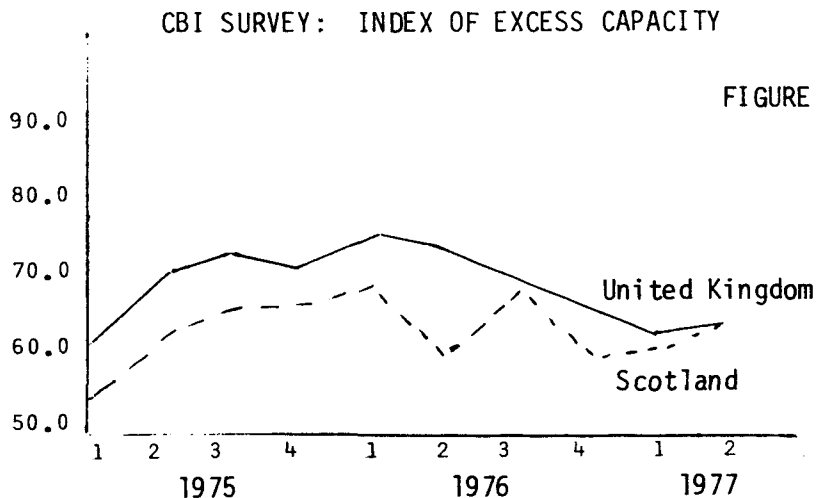
In the first quarter of 1977 the UK index rose to 106.8, passing the Scottish index for the first time since 1973. However, the treatment of the output of the oil industry is making comparison between the two indices increasingly difficult since the volume of production, which is rising rapidly, is the measure used in the UK index, whereas in the Scottish index, the real level of employment income which is fairly static, is taken as the index of output. Thus, although most of the oil is being produced in the so-called Scottish sector of the North Sea, the effect of oil production in the first quarter of 1977 was to raise the Scottish index of industrial production one half of an index point beyond what it would otherwise have been and, counter-intuitively, its

contribution to the all-industries UK index was a rise of one complete index point.

At the industry level substantial reductions in output occurred in mining and quarrying (excluding oil), food, drink & tobacco, electrical engineering, vehicles, bricks, pottery, glass and cement and timber and furniture. The only industry which expanded output substantially was gas, electricity and water, no doubt in response to the severe climatic conditions of the first quarter of 1977.

On a market sector basis, output fell in all categories. However, the year-on-year change shows that all sectors experienced higher levels of output than they did in the first quarter of 1976. In particular, the output of consumer durables, assisted mainly by an increase in the production of vehicles during 1976, stood 25% up on its first quarter of 1976 figure.

The July 1977 Scottish CBI survey was slightly more pessimistic about the general business situation than both the April 1977 Scottish survey and the July 1977 survey for the whole of the UK. However, the percentage of firms working below capacity (see Figure 2) fell from 66% in April to 56% in July and was substantially below the 66% figure for the UK as a whole. Only 25% of firms claimed to have increased volume in the four months to April.



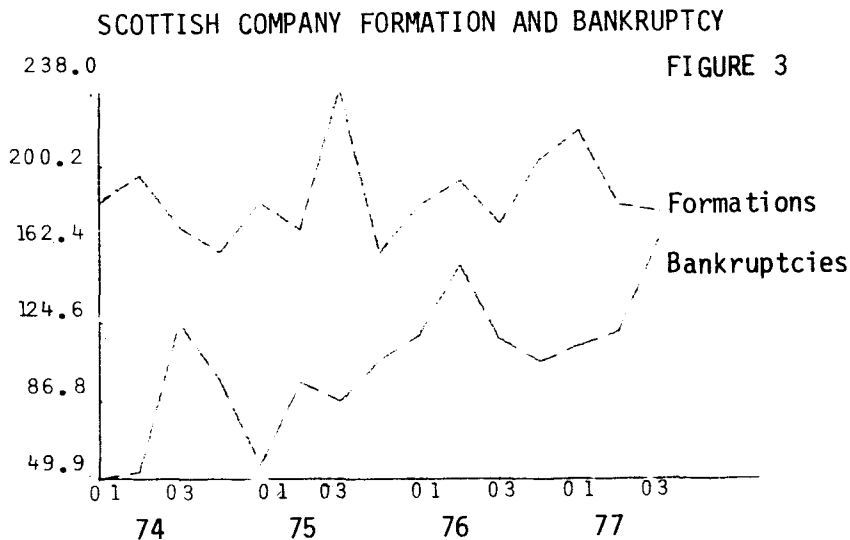
Source: CBI Industrial Trends

A number of changes have been made to the CBI survey between April and July 1977. Of particular interest is the question relating to the volume of stocks which is included for the first time. The July survey showed that 54% of Scottish respondents felt that their current stocks were adequate: the corresponding figure for the UK was 55%. In both the UK as a whole and in Scotland only 11% of respondents felt their stocks to be inadequate.

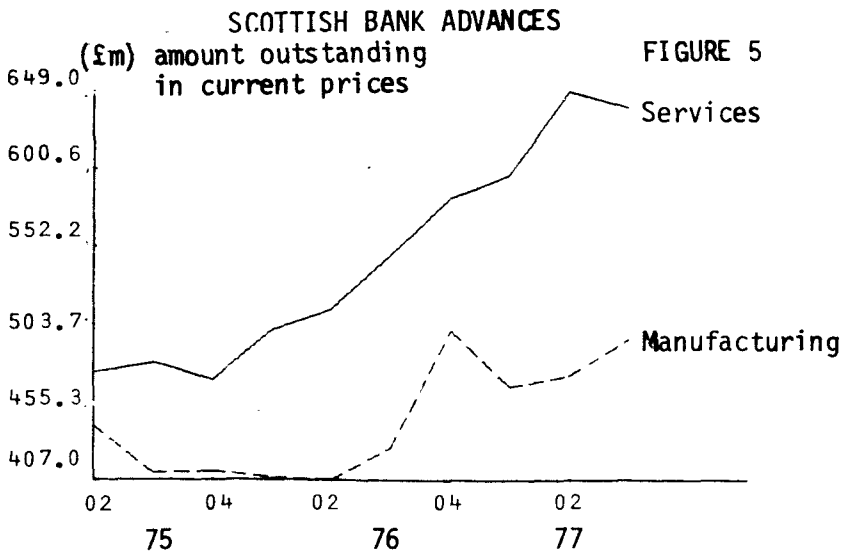
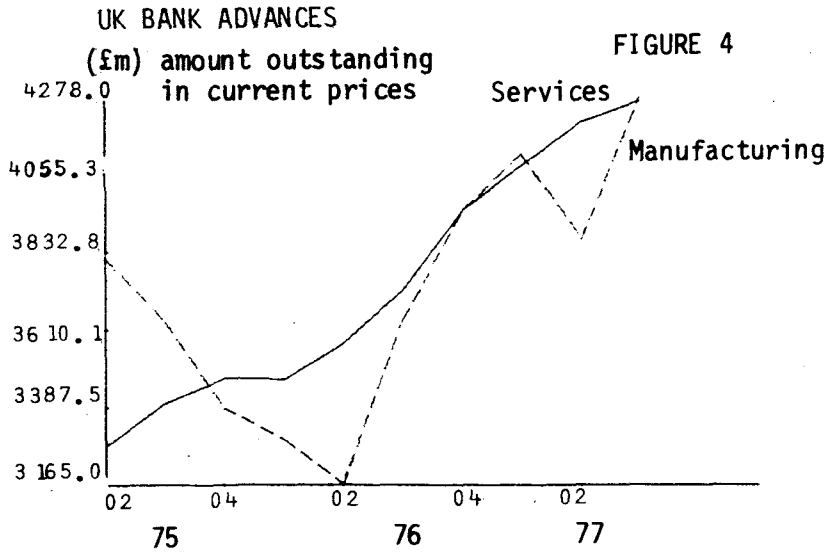
With regard to the volume of export orders 24% of firms experienced a rise in the four months to July compared with 30% in the UK. However, 40% of Scottish firms expected to increase their exports after July, compared with only 30% of UK firms.

Investment intentions in July were at much the same level as they were in April and were also much the same as those in the UK in July. One quarter of firms expected to spend more on buildings than they had in the past twelve months and 54% expected to spend more on plant and machinery.

The trend in company formations and dissolutions in the third quarter showed a disturbingly large increase in bankruptcies and a slight fall in formations (see Figure 3) This most recent observation exhibits a very small excess of formations over dissolutions relative to recent years.



Source: Registrar of Companies



Source: Bank of England Quarterly Bulletin

Advances by Scottish clearing banks increased by over £70 million between May and August 1977. A decline of £10 million in advances to services was offset by an increase of £23 million to manufacturing, the major part of which went to the engineering industry. A particularly large increase in advances of £37 million was made to agriculture, presumably to improve cash-flow before harvest. In the personal sector the amount outstanding grew from £310 million to £327 million, perhaps reflecting an attempt by households to maintain their consumption habits during a period of substantial fall in real incomes.

Current Trends in the Economy

Forecasts for the UK construction industry continue to predict a drop in real output over the next two years. The public sector is particularly depressed, although the future for the private sector appears less bleak than six months ago; analysis of recent new orders figures tends to confirm this view. The National Federation of Builders and Plumber Merchants' annual index of turnover shows Scotland ahead of Great Britain as a whole. However, recent monthly figures indicate that the gap is closing.

New orders received by contractors in Scotland for the second quarter of 1977 rose to £271.62 million compared with £230.95 million for the second quarter of 1976. This increase was accounted for by the rise in private sector orders notably for industrial new work. Second quarter public sector orders have fallen from 60.3% of the total in 1975 to 53.5% in 1976, to 46.1% in 1977. Public housing orders slumped from 23.3% to 13.5% over the period while private housing remained at around 13 to 14%. In June 1977 38,555 houses were under construction compared with 48,577 in June 1975. Approvals for public sector housing confirm that the reduced level of construction will continue over the next year. A regional breakdown of second quarter new orders shows that Strathclyde's share fell from 42.9% in 1975 to 39.9% in 1976 and to 38.8% in 1977.

North Sea oil production averaged 767,947 barrels a day in August after falling slightly while installation work was carried out on the BP Forties field. Over the next two years it is expected that the build-up in the production rate will be faster than originally forecast. Production from the two largest fields, Forties and Piper, has exceeded expectations. Piper are to be allowed to raise their output from 250,000 to 3000,000 barrels a day in spite of flaring associated gases. Liquid gas will be reinjected into the field later in the year and it is planned to recover natural gases next year. There has been a shortfall in

the Argyll field's production rate due to a high water content in two wells. Estimates of recoverable reserves have been reduced. It is believed that the operators may ask for royalty charges to be waived in order to increase profitability and install additional equipment to separate the water. A new well sunk in September has boosted estimated reserves, and will be linked to existing production facilities by the end of the year.

As Fourth Round licences expire in a few months there has been a steady demand for rigs for exploration drilling. BP's recent discovery west of Shetland, where a number of operators are drilling, has heightened interest in the area. The commercial significance of BP's find in block 206/8 is not known, and Elf has already reported a dry hole in 206/11. Amoco has announced a find 100 miles east of Shetland. A reservoir beneath the main Auk field has been discovered and will probably be exploited as platform and shipping facilities are already available.

Texaco are to spend £250 million on developing the Tartan field. Fabrication orders have not been placed. The French firm Union Industrielle et d'Enterprise is to assemble the steel platform, with Redpath Dorman Long of Methil undertaking a large part of the fabrication work. It is hoped to go on stream by late 1979 or early 1980. The Department of Energy have given conditional consent for a £100 million development plan for the Buchan field, and have allowed the drilling of the first development well. The operators intend to develop this small field with a semi-submersible production unit and the industry considers that final consent will be granted. However, the government appear to favour fixed platforms, as semi-submersibles are not able to exploit oil and gas reserves to the same extent. After receiving Mesa's development plan for the Beatrice field the Department of Energy took the unusual step of employing two consultants to study the problems of offshore loading and oil handling raised by the plan. A development plan is expected within the next six months for the compact Shell/Esso Fulmar field.

In contrast to some earlier forecasts that envisaged a surplus of supply developing in the mid 1980's it now appears that there will be a steady output roughly equivalent to UK demand. Recent government measures have shown a greater awareness of controlling the rate of depletion of reserves. Exports of oil have averaged 40% during 1977 in spite of a 1974 government guideline suggesting that they should not rise above 33%. A Green Paper on the economic importance of North Sea oil is to be published in November.

Employment in the oil and oil-related industries peaked in mid-1976. According to Scottish Office surveys the offshore workforce rose slightly from 4,585 to 4,715 from July 1976 to June 1977. Onshore there was already a swing in emphasis from manufacturing to service industries and disappointingly Strathclyde's share of wholly related employment fell from 3,955 to 1,460. Unions have still failed to gain recognition on the rigs although an agreement on one could be signed soon.

After the uncertainty of the past two years and the lull in development activity a number of companies have announced development plans for North Sea fields and are beginning to place orders again. According to the Offshore Supplies Office the value of major orders for equipment and services for 1976 was £1,000 million, compared with nearly £1,200 million in 1975, and nearly £1,300 million in 1974. The fluctuation in the rate of development in the immediate past created difficulties with companies alternatively overstretched and then underutilised. A steadier ordering pattern would seem to be emerging with exploration licenses being offered in smaller, more frequent packages. The negotiations over Texaco's recent Tartan order, when it was feared the entire platform contract would go to UIE of Cherbourg, demonstrate the government's influence over the awarding of contracts. A compromise was reached with UIE entering into a joint venture with Redpath Dorman Long. Burntisland Engineers and Fabricators are expected to be awarded contracts for four of the ten equipment modules for the Tartan field. Gray Tools of Douglas, who account for 60% of wellhead business in the North Sea, have won contracts worth £4 million for at least 109 well-head valve assemblies for Heather and Ninian fields. John Brown Offshore of Clydebank are to be reduced to a care and maintenance operation after opening less than three years ago. The closure will involve the remaining 500 men at the yard. The jack-up rig being built as a speculative venture by BNOC at Marathon has been sold and Penrod Drilling have placed a further order for a second rig. The Dundee Port Authority have approved plans to attract more North Sea business to the port. Work is to start at once on two berths.

Following the two-year dearth of orders three platforms have already been ordered this year, and it appears that the cautious government forecasts will be exceeded. An Aberdeen University study foresees a period of intense activity, similar to the peak 1973-75 period, over the next few years. It predicts that twenty three platform orders will be placed and that the proliferation will mean that some orders will, inevitably, go abroad. The study sees good prospects for steel platforms, and a possible development of floating or tension leg designs; and confirms the view that the future for concrete yards is bleak. With the reduction in demand for platforms from the early 1980's the demand for sites will be reduced. At present there are seven yards in

Scotland. , The two steel yards, McDermotts and Highland Fabricators, which the Aberdeen study consider to have good long term prospects, are working on platforms for the Murchison and Ninian fields respectively, as well as smaller orders. As mentioned earlier, Redpath Dorman Long, operating a skeleton maintenance and design staff, have secured a contract for fabrication work for the Tartan field which will ensure employment for a further 500 men until 1979. The float-out of the Howard Doris concrete platform for Chevron's Ninian field has been delayed until Spring 1978. It is anchored near Loch Kishorn and Howard Doris are able to employ 200 men on winter completion work while seeking other orders. The three other concrete yards are still without work. Portavadie and Hunterston have had no orders and are likely to be closed.

The first test flows of natural gas from the Frigg field have been pumped to the St Fergus gas terminal. Recent detailed studies of the North Sea gas-gathering project indicate that, due to the scattered locations and high investment involved, the final scheme would not involve the 800 miles of undersea pipeline originally proposed. Maximum use would be made of existing pipelines and the viability of the project might depend on Norwegian agreement to using the associated gas from their Statfjord field in the system.

A decision is expected soon on whether to allow plans for a petrochemical complex in Fife to go ahead. Meanwhile, Shell Chemicals and Esso Chemicals have signed an agreement which will give Shell access to 40% of the capacity of the proposed ethylene plant at Moss Morran. The chemicals industry is still buoyant, although a fall-off in demand is expected by 1979. ICI's dyestuffs plant at Grangemouth was damaged in an explosion and will be out of operation until the end of the year. Overall sales of dyestuffs are depressed and ICI have spare productive capacity at their Manchester plant.

World tonnage of ships under construction continues to decline and, as mentioned in the previous issue, producer countries vie with each other in offering attractive credit terms in the fierce competition for orders. The British government's £65 million intervention scheme has been the subject of overseas criticism. The EEC has stressed that aid to less competitive yards must be exceptional.

There have been few visible signs of change since nationalisation in July. British Shipbuilders have taken an active marketing role but appear to be marking time until producing their corporate plan next year. £21 million of the intervention fund has been allocated. The Department of Industry stopped

British Shipbuilders negotiating a wage settlement at Govan. A rationalisation of wage rates is anticipated and there have been a number of large claims from Scottish yards. There is great disparity of rates - Govan, for example, having the highest and Scott Lithgow the lowest on the Clyde. The long expected Polish order has been finally confirmed, and it is expected to be signed in the next few weeks. It is worth £115 million and will entail building seven 16,550 ton and fifteen 4,400 ton vessels, and two floating cranes. It involves joint financing of the order by British Shipbuilders and the Polish Shipping Company and initially sub-leasing of the ships to the Poles by British Shipbuilders in the role of ship owners. Tenders have already been submitted by the individual yards and British Shipbuilders will allocate orders early next month. It is not yet clear how far Scottish yards will benefit.

Govan are expected to obtain at least two of the bigger ships. They have been withholding redundancy notices for 1,000 of their 5,600 workforce until this order came through. They have also been anticipating a decision on a £50 million order for six ships for the Molave Corporation of the Phillipines since the beginning of the year. Robb Caledon need two more orders to maintain employment for 1,500 into the next year. The order for a £5 million bulk carrier for New Zealand averted imminent redundancies. Scott Lithgow might also expect work from the Polish order. At present their order book stands at £200 million. They have benefited twice from the intervention fund. In August they obtained, with an undisclosed amount of government assistance, a £35 million order for three 20,000 ton cargo liners for the Liverpool-based Ocean Transport. Yarrows have an order book of £150 million and a recent long-delayed £55 million order from Iran for four support ships ensures continuous employment for the 5,400 workforce for two years. Ailsa Shipbuilders have nine months full employment for the present workforce, but if they secured an order from the Polish contract it would mean recently redundant workers could be re-employed. James Lamont of Port Glasgow ceased trading earlier in the year, but a £1.3 million order for a sludge carrier represents a year's work for the 500 workforce. The small Campbeltown Shipbuilders have current orders for fishing boats until 1979. Their trawler 'Von' for the Faroes has aroused great interest. It has ultra-modern design and safety features, and may be the forerunner of future orders.

The worldwide steel recession is not expected to improve until the 1980's. The British Steel Corporation are now sustaining such massive losses that a change in strategy is widely anticipated. Apart from sharing the general problem of over-capacity, BSC is overmanned and involved in a belated modernisation

programme. The now discarded ten year development plan involved export targets that are unlikely to be fulfilled. Productive capacity in Scotland is scheduled to rise to 4.5 million tonnes a year by 1980 while output is less than 2 million tonnes and falling. A conference in Rome of the International Iron and Steel Institute may decide that steel producers should restrict exports on a voluntary basis. Current inquiries are likely to recommend a drastic cutback in investment. In Scotland, the main development at Ravenscraig will be completed but the electric arc furnace there has already been indefinitely postponed. The future of the integrated works at Hunterston is uncertain although a firm date in 1982 for completion of an electric arc furnace has finally been given. A minimal development commitment may mean that there will be premature closures of old works before the dates negotiated under the Beswick plan. Production at Clyde Iron Works was reduced and it is to close in February two years ahead of schedule. The 800 employees have opted for redundancy payments, rather than continue earning reduced wages, in defiance of the advice from the Iron and Steel Trades Federation to keep the works open. Other older open hearth shops at Ravenscraig, Glengarnock and Dalzell may now be more likely to follow suit. Ironically, there is a shortage of skilled technicians to produce highly specialised steels. Three thousand jobs have been lost in the steel industry in Scotland over the last two years. BSC (Industry) Limited set up to obtain alternative employment for redundant workers has not, so far, been very successful. The Cambuslang site still awaits occupation.

The engineering industry, as reported in the CBI July Survey, has been one of the more successful sectors of the Scottish economy. Although they have not escaped the overall weakening in new orders and output, confidence in mechanical engineering improved compared with the previous survey; investment intentions were particularly strong in electrical engineering and expected trends in employment were favourable in both electrical and mechanical engineering.

The Central Electricity Generating Board has formally announced plans to go ahead with the Drax B development. The design contract for a gas boiler has been placed with Babcock & Wilcox and they will receive the greater part of the main contract, to be shared with Clarke Chapman. Work will start in the Spring. The order ensures the survival of the Renfrew plant, although it is still unlikely, without additional export orders that the current 3,700 workforce will all be maintained during 1978. Another Renfrew firm, Scottish Cables in the BICC group is to close with 435 redundancies. Production is to be transferred to the company's other works in North Wales and Kent. NCR in Dundee, where employment has been cut from 6,000 to 1,400, have postponed a further 400 redundancies from November to March.

A £1 million investment programme, recently announced, suggests that a feared closure is not planned. A small highly specialised export oriented electronics firm reports further successes. It is felt that growth in electronic components must be reflected in other related industries. Employment is stable and in some cases shows a modest increase. At Motorola in East Kilbride, plant expansion is being undertaken which will double employment in five years. The growth of the firm semi-conductor business is mainly geared to consumer electronics.

In the mechanical engineering sector, the receiver called in at Glenfield Kennedy re-opened the plant in August with a workforce reduced from 1,000 to 420 to complete £2 million worth of orders. The plant was to be open for 16-20 weeks and there is now a reasonable chance of finding a buyer.

Car sales in the United Kingdom increased by 2.9% to 960,915 for the first eight months of 1977. Imported models increased their share of the market to 44.5% and achieved a record 50.8% in August. The high level of import penetration was partly due to shortages of home-produced vehicles and partly a temporary phenomenon as the main manufacturers switched production between Britain and the Continent. Vauxhall, for example, will return its Cavalier production to Luton from Belgium by the end of the year. However, the strike at Lucas may reduce British Leyland's ability to meet demand still further. New registrations in Scotland fell back from 30,924 for the second quarter of 1976 to 28,925 in the same period of 1977, and their share of UK registrations dropped slightly from 9.1% to 8.6%. The critical launch date for the new Sunbeam built at Chrysler's Linwood plant was 18 October. Production for the prelaunch target of 5,500 vehicles began in the middle of August and is building up towards the target of 42 cars an hour, in spite of some unofficial disputes and fears of electrical shortages due to the Lucas strike. The company plans to add a further 500 employees to the current 8,000 workforce before the end of the year. Productivity at Leyland's Bathgate plant has been affected by the strike of clerical workers during the Summer. Strikes at Dunlop and Goodyear also involved clerical staff. Stonefield Vehicles, a joint enterprise with the SDA had moved to its factory at Cumnock and aims to start production early next year. Four hundred overseas orders for the four wheel drive vehicle have already been placed. Advance orders largely account for the whole of the planned first year's production.

An increase in home and export sales of whisky has brought renewed confidence in the industry and an upward trend in production. After three years of cutting back production, output for the first six months of 1977 was 75.7 million proof gallons - an increase of 6.3% over the first half year. Home sales for the first five months were temporarily depressed after the upsurge in consumer demand brought about by the December 1976

mini-budget. Exports, worth £231.2 million, were 14.15 million proof gallons for the first six months and show an increase of 22.5% in value and of 3% in volume over the same period in 1976. Shipments of bottled blends, which account for 69% of the total market in volume terms, increased 3.8% over the period. The volume of bulk blends fell while exports of bottled malts and bulk malts rose 13.7% and 5.4% respectively. While American whisky is losing its share of the US spirit market consumption of Scotch rose last year. After a slow start to the year shipments of Scotch to the United States rose 47% in volume in August as importers bought forward in anticipation of a longshoremen's strike. 72.4% of bulk malts exported go to Japan for local mixing. After a 14.4% volume growth in 1976, the rate of increase dropped sharply to 10.8% for the first eight months of 1977.

The NEDC are carrying out a detailed industry analysis to be published in the Spring. They are to examine the industry's ability to forecast future trends, and whether it is in their interests to continue bulk shipments. A Scotch Whisky Combine Committee involving eight unions has been set up to put pressure on the government to ban bulk malt shipments. They estimate it is costing the local industry 6,000 to 10,000 jobs and £8 million in lost materials. A report by Economic Associates on the bulk whisky trade reaches a different conclusion. They assert that a ban on exports would not be followed by a compensating increase in bottled whisky and maintain that the job loss is nearer 800 to 1,400. Markets would be irretrievably lost and a ban could lead to retaliatory action. The industry has a constant concern about import restrictions and taxes levied in consumer countries. The Australian government has imposed a retrospective import quota from the end of August to February 1978, limiting imports to 40% of the 1975-76 figure and adding a 10% duty on imported whisky only.

Production in the textile industry would appear to have levelled off after the upturn of last year. There is nervousness about rising low-cost imports and the effects of the renegotiated multi-fibre agreement could be critical for some marginal firms. Aside from the traditional exporting sectors, like the woollen manufacturers, companies have reported foregoing export possibilities and are concentrating on supplying the home market and countering imports. The spinning firms are undergoing particular difficulties while the dyers and finishers have benefited, to some extent, from the increasing use of plain imported yarns requiring further finishing. The garment business has experienced a rash of closures in Glasgow, although retailers are beginning to pick up trade after a disastrous Spring season. There have been a few other closures. Spalding and Valentine of Perth who make synthetic yarn for carpets have

given 90 days notice to their 150 employees. Employment generally is fairly steady and some firms have announced modest increases. Levi-Strauss are to complete an extension to their Whitburn plant by the end of the year and will add 20 to their workforce of nearly 330.

The Scottish fleet continues to press for an extension of the herring ban, as stocks need more time to recover. Our forecast in the last issue of the Commentary that onshore employment would feel the effects of the problems of the herring industry, has been borne out by the White Fish Authority. "Chronic overcapacity" is reported in the processing industry, due partly to the present herring shortage and partly to poor forecasting of catches in earlier years. More than 500 redundancies are already planned in Fraserburgh, though Shetland is at greatest risk because of its heavy dependence on the North Sea for supplies.

As a result of the latest disagreements with the USSR, the area of sea open to Scottish (and other EEC) boats has again shrunk. The loss of access to the rich Barents Sea grounds means a further aggravation of the depressing downward spiral of overfishing and loss of employment presently characteristic of the industry.

However, a more optimistic picture is presented in the Western Isles with the government loan of £1.54 million for the purchase of inshore boats and ancillary equipment, and the development of the processing factory at Breasclete. Even though these developments are planned for the 'fragile' areas of the region, without strict conservation measures and government and public support, it may become just another boom-bust cycle that has been typical of Highland history.

Employment and Unemployment

In our last Commentary we suggested that the recent fall in service industry employment would continue, with the December budgetary measures having a significant effect. Subsequent figures have shown how the financial cutbacks of the last year have reduced council staffs by 6099 to 250,651 by the end of March, and further, more severe falls are expected. This has contributed to the continuing shedding of labour in the service industries, where employment has fallen from 1163 thousand to 1155 thousand between December 1976 and March 1977. The long-term fall in manufacturing employment was resumed with a drop of 5 thousand to 616 thousand. The total number of employees in Scotland has therefore fallen for the third successive year and is now, at 2043 thousand, 2% less

Unemployment & Vacancies in the Regions of the UK: September 1977

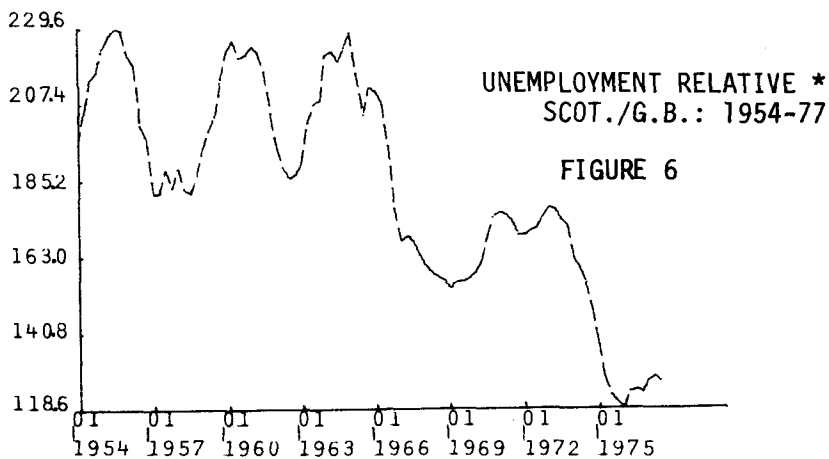
	Unemployment (000's)	Unemployment Rate	Vacancies (000's)	Unemployment/ Vacancies
South-East	371.5	5.0	72.9	5.1
East Anglia	39.7	5.7	6.2	6.5
South West	116.2	7.3	10.2	11.4
W Midlands	152.5	6.6	14.2	10.8
E Midlands	87.1	5.7	11.7	7.4
Yorks & Humberside	134.1	6.5	14.1	9.5
North-West	232.9	8.3	14.0	16.6
North	124.1	9.3	10.6	11.8
Wales	94.6	9.0	6.8	13.9
N Ireland	67.2	12.6	2.7	25.3
Strathclyde	112.8	10.5	8.4	13.4
Rest of Scotland	76.3	6.9	10.9	7.0
Scotland	189.1	8.7	19.3	9.8

Unemployment in the Scottish Regions: September 1977

	June '77 (000's)	September '77 (000's)	Percentage Change	Unemployment Rate
Highlands	5.9	6.1	+ 3.1	8.8
Shetland	0.2	0.2	- 2.5	3.9
Orkney	0.3	0.3	+12.4	5.4
Western Isles	1.1	0.9	-20.5	11.1
Grampian	7.3	7.5	+ 2.3	4.4
Tayside	12.8	12.6	- 1.6	7.6
Fife	11.0	11.0	- 1.0	8.3
Strathclyde	109.9	112.8	+ 2.7	10.5
Lothian	23.9	24.2	+ 1.3	7.3
Central	8.3	7.9	- 5.6	7.2
Dumfries & Galloway	4.0	4.2	+ 5.9	8.3
Borders	1.6	1.6	+ 2.2	4.2
Scotland	186.2	189.1	+ 1.5	8.7

than it was in the late 1960's. Whilst the number of male employees continued to fall, by nearly 1% to 1190 thousand, the female situation was not so adversely affected by Public Sector cutbacks but still fell by 0.7% to 853 thousand over the last quarter.

The Scotland/GB unemployment relative - now at 126,3 - is slightly lower, but this improvement threatens to be only temporary as the loss of £79m per year of Regional Employment Premium becomes more cost effective. Indeed, its abolition, the two Cambridge economists Mr John Rhodes and Mr Barry Moore have estimated threatens that by 1980 Scotland will have lost up to 14000 jobs.



Our July forecast of a steady increase in unemployment has been borne out by subsequent events - the seasonally adjusted figure now stands at 174,200 an increase of over 6000 since June. The actual number of unemployed - 189,076 - shows that females comprise just under a third - 32.6%, confirming the long-term upward trend in attachment of females to the labour market whether in or out of employment.

Following our previous analysis of the duration of unemployment, the lengthening of the average time out-of-work (see FIG 7) must be viewed with increasing gravity. With over 40% of the male unemployed having been out-of-work for more than 6 months, after which period earnings-related benefit ceases, and nearly 24% unemployed for more than a year, after which period unemployment benefit ceases, the situation is becoming both more widespread and more desperate. When the existence of poverty and long-run unemployment were rediscovered in the 1960's some commentators suggested policies aimed particularly at this problem. However, when the problem encompasses such a large proportion of the male labour force - over 4% unemployed for more than 6 months - the policy emphasis shifts to general rather than specific measures.

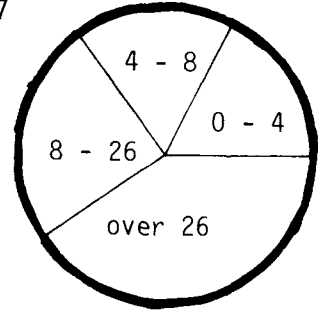
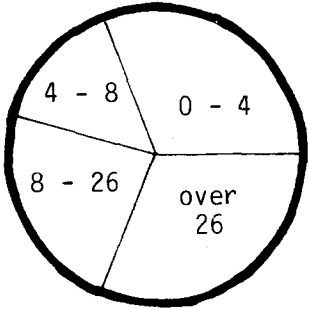
The unemployment/vacancies ratio deteriorated marginally during the three months to September rising to 9.8, with the ratio for Strathclyde alone being 13.4.

DURATION OF UNEMPLOYMENT IN WEEKS

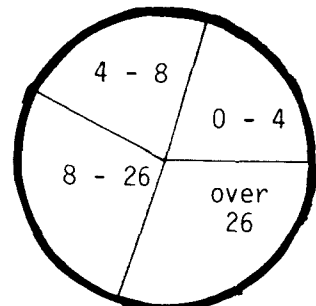
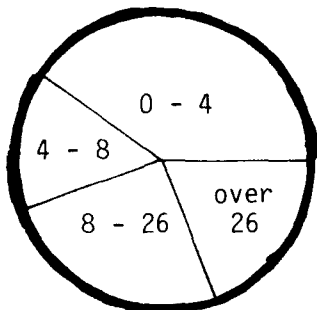
FIGURE 7

MALES

1975 JULY 1977

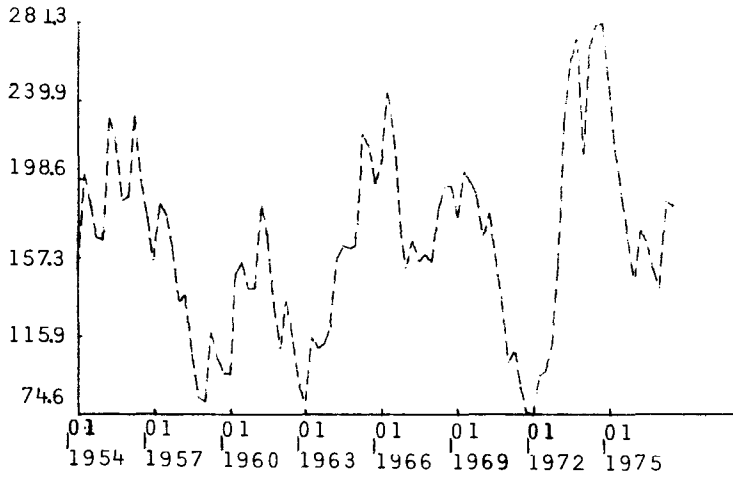


1975	MALES	1977
30.58%	0-4 weeks	17.70%
14.85%	4-8 weeks	17.45%
23.19%	8-26 weeks	24.48%
31.38%	over 26 weeks	40.37%
{ 19.13%	" 52 "	23.88%
97893	MALES	131103
33511	FEMALES	63168
	FEMALES	
40.03%	0-4 weeks	20.70%
15.34%	4-8 weeks	21.91%
25.38%	8-26 weeks	27.46%
19.25%	over 26 weeks	29.93%
{ 8.30%	" 52 "	11.74%

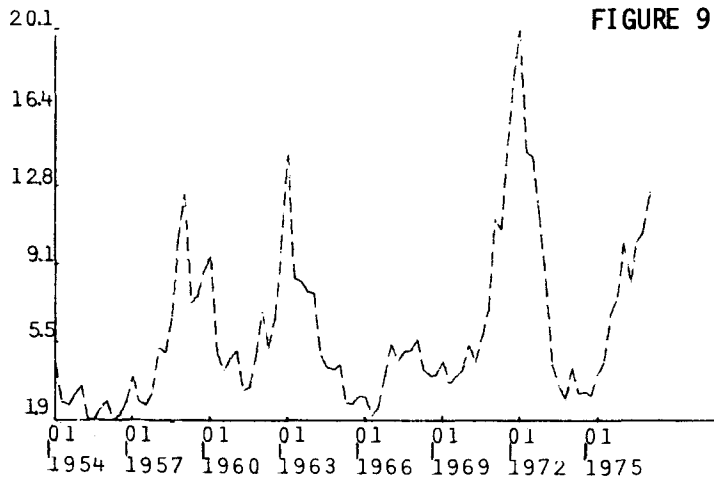


1975 JULY 1977
FEMALES

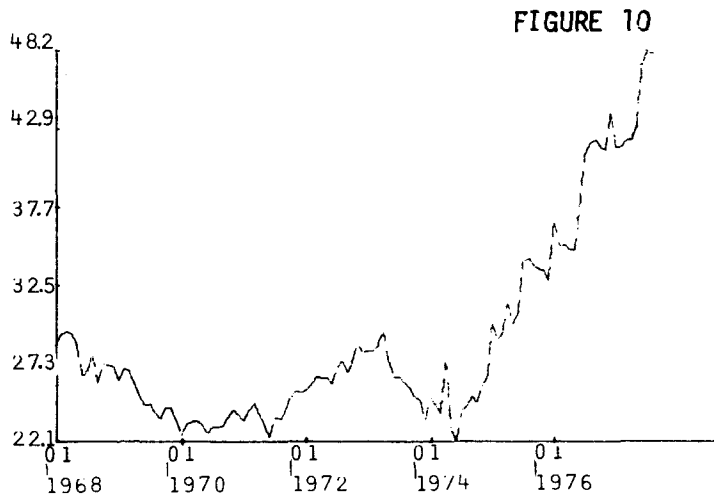
VACANCIES IN SCOTLAND: 1954-77
 (HUNDREDS) FIGURE 8



SCOTLAND: UNEMPLOYMENT/VACANCIES: 1954-77



UNEMPLOYMENT RELATIVE : FEMALE/MALE * 100



Regional and Local Unemployment

The social deprivation in the East End of Glasgow which we mentioned in our last issue has since been discovered by several other researchers. Given the undoubted concern over the conditions both here and throughout Scotland, the desirability of a large-scale, labour-intensive, public works programme for these areas is obvious. With 28-30,000 construction workers unemployed in Scotland and the winter downturn imminent, such a policy is paramount. Caution must be expressed, though, as, with growing skilled labour shortages apparent in Scotland, bottlenecks may soon cutback this expansion. Again this signifies the urgent need for a comprehensive extension of training and retraining services.

The dispersal of Whitehall jobs to the rest of the UK and the West of Scotland in particular has again been set back, this time to a point beyond the horizon of 1988. The hope has been that this build-up would act as a catalyst in the restoration of Glasgow's decision-making activities and thus diversify her economy. However, these hopes are overwhelmed when placed in the context of the reality of the employment situation. Unemployment in Starthclyde has increased to 10.5%; Renfrew, Paisley and Johnstone being the only urban area with a rate below 10%, though even here the future is uncertain. The position of Ayrshire has deteriorated since June with the closure of several important firms by their American owners. In Clydebank, where 77 people are already chasing each registered vacancy, a further 500 workers will be made redundant by Christmas. Similarly, Lesmahagow, isolated though on Scotland's main link with England, has over 46 people for each of its 12 vacancies. With the reduction in real incomes the tourist season was a disappointment in the Clyde area, so that Rothesay, for instance, suffers a male unemployment rate of 27% with a harsh winter ahead.

In the South, the position of much of the Borders (4.2%) and the Dumfries area (6.8%) is relatively buoyant, though parts of the latter threaten to come closer to the high rates (around 13%) of Galloway and Sanquhar.

The guarded optimism in Central Region has been weakened by the recent troubles at Scottish Timber Products where any permanent closure and the loss of 375 jobs could, through the multiplier effect, raise unemployment nearer to the national rate from the present 7.2%.

The position in Lothian has changed little since June, with unemployment rising slightly to 7.3%. A similar situation exists in Fife where unemployment dropped slightly to 8.3%. In the East there is a promise of an improvement for those locals who will again be in the labour force at Redpath Dorman Long's fabrication

REGIONAL UNEMPLOYMENT RATES, 1968-77

FIGURE 11

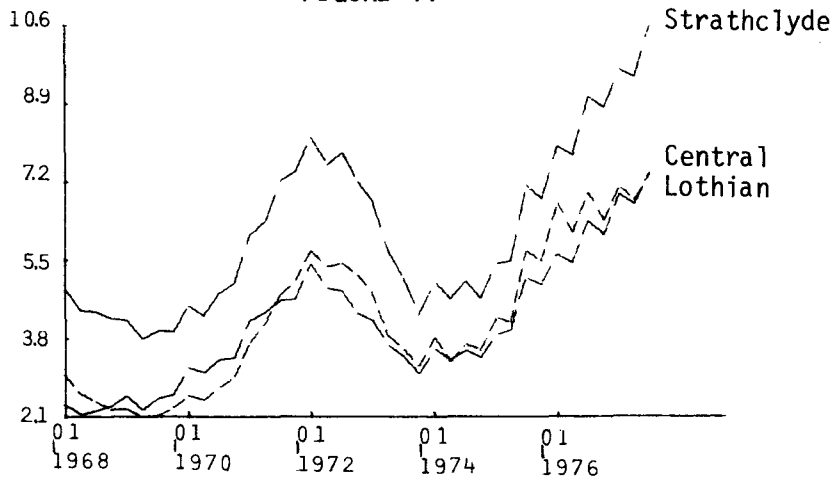


FIGURE 12

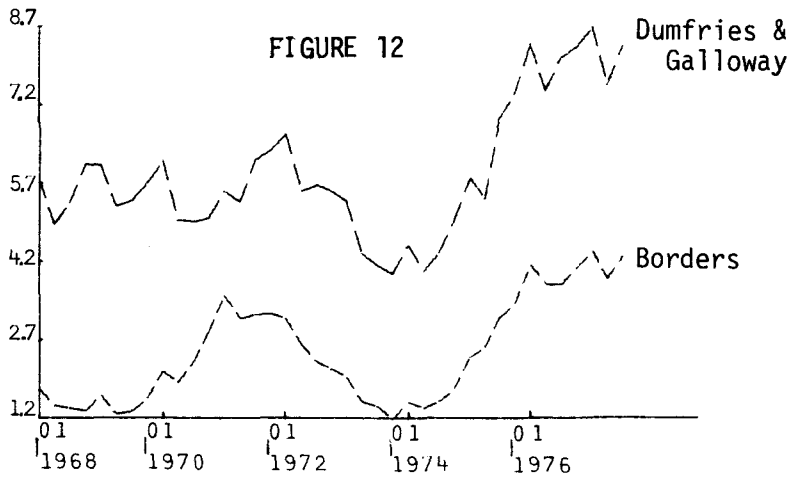
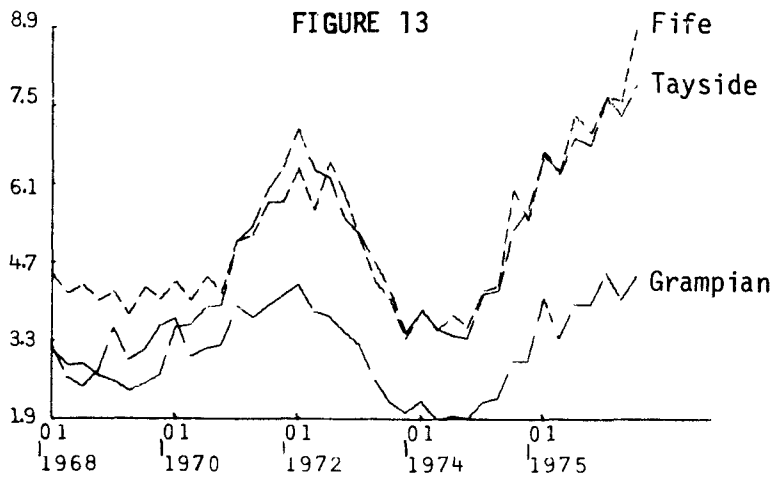


FIGURE 13



yard at Methil. Our earlier foreboding over the proposed commitment of scarce public resources to the large capital-intensive petrochemical complex planned for Fife has been supported in a general sense by the Economic Research Unit of the London Chamber of Commerce and Industry. Further, as has happened in Grampian, the incoming firms are likely to worsen the present situation regarding skill shortages and thereby undermine the long-run viability of some established firms.

Tayside, with 7.6% unemployment, is seeking to increase its proportion of employees in oil-related industries, especially as 400 redundancies are expected from NCR next Spring. The study of the problem of redundancy in Dundee, atypical in Scotland, is to be sponsored by the SEPD. A major problem here as elsewhere is youth unemployment, with 1300 young people for every 30 jobs.

Despite the strong arguments to the contrary, the Government is to withdraw Development Area status completely from the Aberdeen area next April, replacing it with Intermediate Area status. With the continuing run-down in the traditional industries, losing 900 jobs per year since 1971, and their loss of skilled manpower forever to the oil industry, the Regional Council forecast that the Grampian economy will turn round in the next five years leaves no room for such complacency.

The "boom" areas of the North-East, Highlands and Islands are suffering not only from the peculiar difficulties of the periphery in a general recession, but also from the continued uncertainty in the fishing industry. The problems of endemic long-term unemployment and underemployment discussed earlier are apparent in the case of the Western Isles and parts of the Highlands where, even allowing for transpost limitations, the mere provision of jobs is insufficient to reduce unemployment to "acceptable" levels. Thus, though the Western Isles has 502 vacancies for its 867 unemployed, it is a very long way from full employment.

However, whilst the mainland of the Highlands, and the East in particular, are facing these very high unemployment levels, the Western Isles are in a somewhat unique position. If we combine the employment districts of Dingwall, Invergordon, Thurso and Wick - the North and the North-East - then together they are experiencing 12.2% unemployment at present, a rise of over 45% on the 1976 figure. The Lochaber area, 6.1% unemployment, has, in the past month seen notable difficulties in the construction industry and its suppliers. As the effects of public capital expenditure cutbacks have spread through the economy so the small local firms have been hit, with short-term workings and redundancies the result. In the Western Isles however, unemployment has continued to fall, this month to 11.1%, which is the lowest level since records began. This is in contrast to the rest of the UK where unemployment is at its highest since the early days of World War II.

REGIONAL UNEMPLOYMENT RATES: 1968-77

FIGURE 14

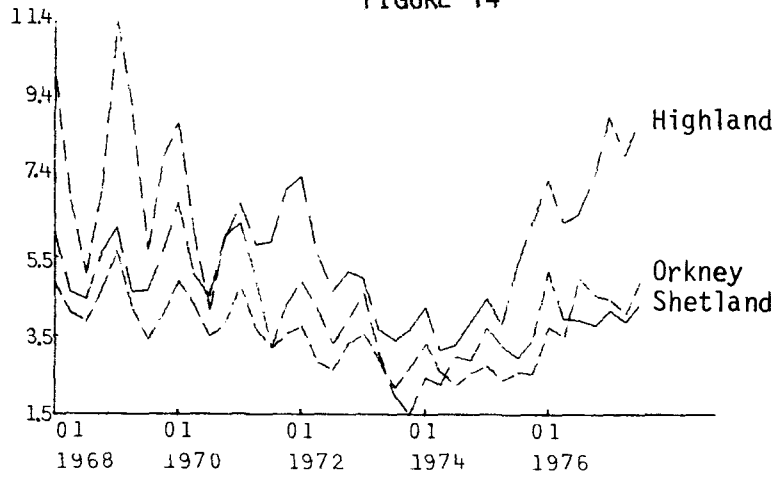
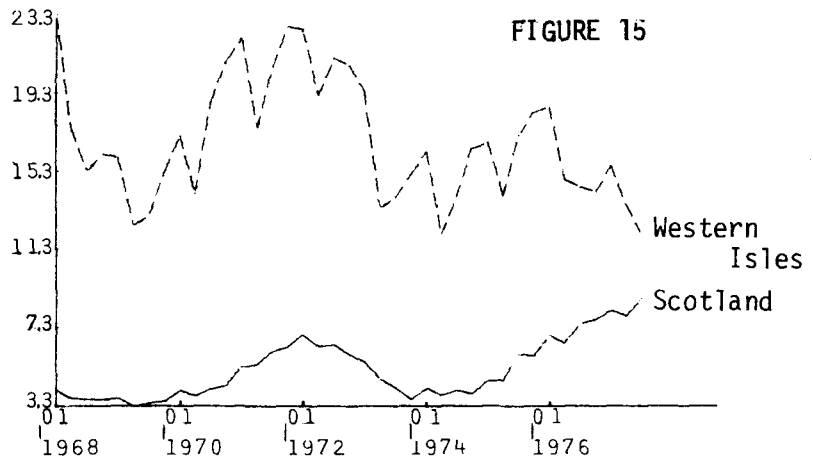


FIGURE 15



Source for all Regional Unemployment graphs ;
Department of Employment

Outlook for the Future

Recent reductions in the rate of inflation and interest rates, coupled with the movement of the UK balance of payments current account into substantial surplus, suggest that it is now appropriate to consider reflation as a means of lifting the labour market from its current state of depression. However, general measures to stimulate aggregate demand such as reductions in direct or indirect taxation will take some time to effect a rise in employment. The speed of reaction will depend on the extent to which increased incomes are initially saved, on the degree of confidence which employers show in the strength of the upturn and on the amount by which output can be expanded without hiring additional men. These delays are likely to be of such a magnitude that an expansionary budget in November will not affect the trend increase in unemployment until mid-1978.

As an alternative (or perhaps an adjunct) to general reflationary measures, the authorities might consider measures more specifically aimed at employment stimulation. For instance, (as suggested in the UK section), the government could bring forward programs of social capital expenditure in order to rescue the construction industry from its worst post-war recession. As suggested in our last Commentary, the authorities could reintroduce a form of REP with a bias towards skilled occupations in order to assist the development areas. A reduction in employers costs, such as their contributions to redundancy payments or national insurance schemes might also go some way toward stimulating employment.

Whatever measures (if any) are implemented their effect on the level of employment between now and March 1978 is likely to be small. As a consequence of this and the expanding supply of labour in Scotland (see our July 1977 Commentary) it seems likely that the level of unemployment will continue to rise. Already well above our estimate for October of 167,000, the seasonally adjusted level of unemployment is likely to rise to around 185,000 by April 1978, implying an actual figure for that month of around 200,000.

Our estimates of real Scottish GDP suggest that there was a fall of 0.8% in 1975 over the 1974 figure. Although modest rises are expected to be recorded for the years 1976 and 1977 it is clear from our estimates that, were the value of North Sea oil to be taken into account, the apparent rate of growth would be substantially larger.