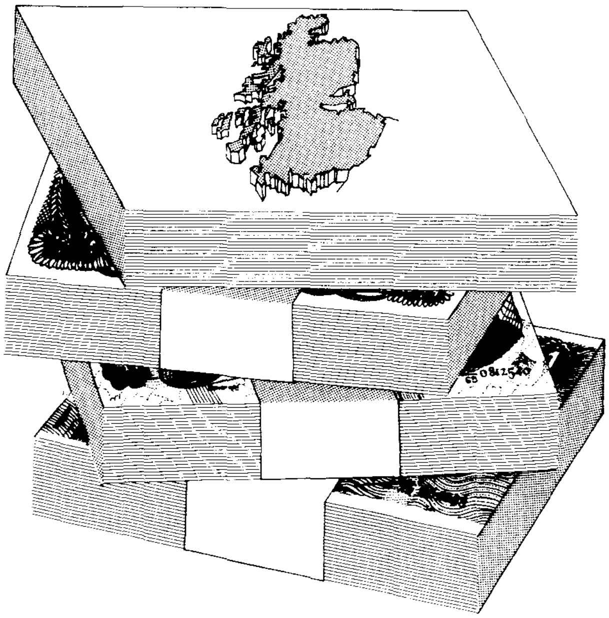
The Scottish Economy



PRODUCTION

A number of damaging industrial disputes, coupled with the severe winter have undoubtedly affected the performance of manufacturing industry over the period from September to the present. The index of industrial production for Scotland is being rebased to 1975 in line with UK practice and no figures are yet available for the third quarter 1978. For the UK as a whole, the seasonally adjusted index fell from 11.9 to 110.0* between the third and fourth quarters of 1978. The decline continued in January 1979, with the index dropping to 104.4. However, it would be unwise to read too much into this fall, since for many industries, output is measured by deliveries and these were adversely affected by the lorry-drivers' strike. For 1978 as a whole, the growth in the UK index appears to be a healthy 3.5% from 106.5 to 110.2. However, without oil the growth in production is only a meagre 1.9%. This is especially disappointing because the demand side of the economy was booming.during 1978 and a large part of this demand had to be met by increasing manufactured imports.

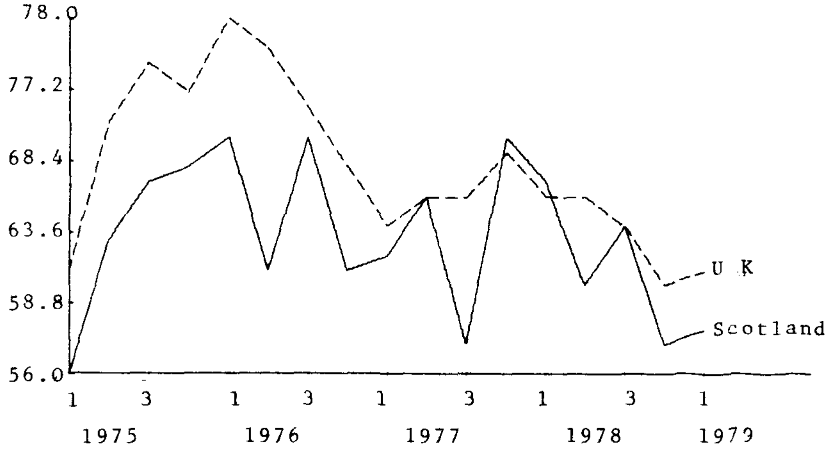
The January 1979 CBI Industrial Trends Survey for Scotland was carried out during the period of the road haulage dispute and may therefore have caused some respondents to be overly pessimistic with regard to future increases in output levels.

Within manufacturing industry, there has been little change in the percentage of firms reporting below capacity working; 57% compared with 56% in the October survey. (Figure 1). Whereas the October figure remained stable for all sizes of firm, the January figures show a fairly large increase to 65% in the percentage of medium sized firms (200-499 employees) operating below capacity. The UK as a whole experienced a similar 1% rise in excess capacity, to 61% of firms, thus ending the downward trend of the past two years.

An increased volume of output during the four months up to January is reported by a balance of +11% of firms, compared with -1% in October. Large firms (+ 500 employees) exhibited the most marked improvement from -3% to + 13% in January. A net 70% of firms reported increased output in the UK as a whole. Expectations of increased output in the next four months are quite good. In both Scotland and

EXCESS CAPACITY : CBI SURVEY

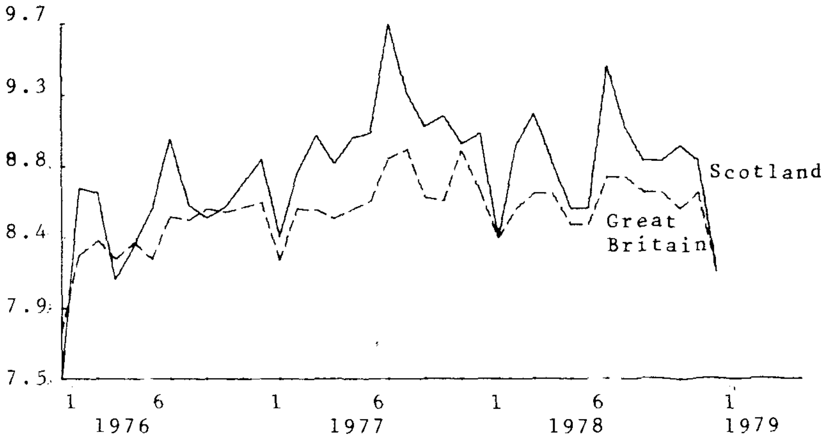
Figure 1



Source: C B I Industrial Trends Survey

AVERAGE HRS OVERTIME

Figure 2



UK a net 10% of firms are optimistic of increasing their output volume. Given the adverse industrial climate at the time of the survey these figures are quite encouraging and would seem to indicate a slight improvement in output volume. Scottish manufacturing industry continues to operate at a marginally higher level of activity than that of the UK as a whole.

The average number of hours of overtime worked per operative working overtime in December 1978 was the same as that for October, both for Scotland (8.90 hours) and GB (8.70 hours). (See Figure 2) However, both the total number of overtime hours worked and the number of workers working overtime rose in December, traditionally a month of higher overtime working to meet increased seasonal demand.

INVESTMENT

The UK index of industrial production for investment goods fell by 3.6 points to 96.2 during the final quarter of 1978. A slight improvement however in the output of investment goods in the UK took place during 1978. The index for the year at 98.2 compares with 97.9 for 1977.

Investment intentions as reported by the CBI survey for Scotland January 1979, show little change from the rather indifferent results reported in October, and remain below those for the UK as a whole. Balances of -12% and -1% of firms expect to authorise more capital expenditure on buildings and plant and machinery respectively in the next twelve months than they did in the preceeding year. This represents a very slight improvement from the October figures. Medium sized firms (200 - 499 employees) are again the most optimistic group with a net 9% of firms expecting to spend more on buildings and 5% more on plant and machinery. It is worth noting that a higher balance of medium sized firms expect to spend more on buildings than on plant and machinery. Normally this situation is reversed.

The corresponding balances for the UK were -70% and -12% respectively for buildings and plant and machinery, again a slight improvement over the October results. Both in Scotland and the UK as a whole, 75% of firms reported adequate capacity to meet expected demand. This represents a return to the July figure for Scotland after the high October figure of 83%. Small firms (0 - 199 employees) again recorded the highest percentage of adequate capacity (85%) and medium sized firms (200 - 499 employees), the lowest (71%). This also accords with reported capital expenditure authorisations.

There has been little change in the level of investment as indicated by the value of Regional Development Grants (more than £25,000) received by Scottish industry. In the final quarter of 1978 the total amount of the grant received was £16.9 million representing an increase of just over £1 million from the previous quarter. At constant 1975 prices however, the value of the fourth quarter grant was £0.5 million below that for the third quarter (see Figure 3). During the whole of 1978, the total grant awarded was £71 million, compared to £49 million for 1977. Strathclyde Region received over half the grant, almost £40 million with Central and Lothian regions receiving £13.3 million and £8.5 million respectively.

REGIONAL DEVELOPMENT GRANTS (1975 CONSTANT PRICE)

Source: Trade & Industry

CONSUMPTION

The UK Retail Sales Index for 1978 showed an increase in sales of 6.7% from non food shops after very poor trading in 1977. The index overall regained its 1973 level. Recently, the bad weather has had a depressive effect on sales, although there were exceptionally high food sales in January 1979 in response to the threat of food shortages. Sources in the retail trade in Scotland confirmed that the UK experience has been true north of the Border. In the medium term a moderate rise in sales activity is anticipated in non food shops with food shop sales falling back to compensate for the extra buying in January, and then remaining fairly static.

INDUSTRIAL PERFORMANCE

As indicated in the previous section, it is more difficult than normal at present to form a clear view of the state of Scottish industry. This is due to two main factors. Firstly, rebasing of the index of industrial production from 1970 to 1975 has delayed production of the index for the third quarter of 1978. Secondly, the most recent CBI Survey of business opinion was conducted during January, at a time when many industries were suffering adversely from the effects of the lorry-drivers strike. Consequently many of the opinions expressed in this survey may, in retrospect seem unduly pessimistic. With these provisos in mind let us now turn to a consideration of trends in individual industries.

AGRICULTURE

The EEC Commision's 1979/80 farm price proposal included recommendations to freeze farm prices, devalue the British, Italian, French and Irish green units of account and introduce a 2% levy on income from milk up to a base level with extra penalties for additional output. The 5% devaluation has been ratified by a meeting of the agricultural ministers but there has been no agreement on the price freeze put forward by the British government and prices will automatically remain at the 1978/79 level until after the next ministers' meeting, after the British General Election. EEC spending on farm support will rise by 10% during 1979 even if a price freeze is agreed. A Commission green paper calls for an adjustment in the pattern of contributions. The definitive statistic on the 1978 contributions made by each member will be announced shortly.

The proposed tax on milk production and the suspension of new investment assistance have been strongly criticised by UK milk producers. In Scotland, although retail sales rose by 2% in 1978, the 1978 Scottish Dairy Farm Census in May recorded a 10.8% drop in milk producing farms from the 1975 census.

The 1978 Scottish harvest is officially put at 1.98 million tonnes - showing an 8% drop on the previous year. Some trade sources estimate that, due to bad weather, output was nearer 1.5 million tonnes which would mean a 30% fall from the 1977 figure. Prices, particularly for barley, are firm at present. The European Court ruled against the British import ban on potatoes, so with the ending of the price support system, consumer prices will fall, at least in the short term.

The December census showed the smallest decrease in the beef herd since 1974 and a rise in heifers in calf of 7% over the 1977 figure. Pig meat has experienced its normal post Christmas price decline and a slightly weaker market is expected for 1979. The December census reported a rise in sheep numbers. The seasonal price rise began later than normal in December and prices are expected to be consistently higher than last year. The European Court decision on potatoes suggests that a similar judgement will be reached on the illegality of restricting sheep imports to France. British farmers found alternative customers last year and exports are expected to continue to rise, possible at the expense of the home market.

FISHING

The British government rejected the Common Market Commission's criticism of their unilateral fishery conservation measures and they are to be taken to the European Court on a breach of EEC rules. Publically the UK and the other member countries are no nearer to agreeing on a Common Fisheries Policy.

shows considerable change in the composition of landings by species compared to 1977. Mackerel landings have risen by nearly 100% and account for 25% of the total tonnage, but only 7.8% of the value. Haddock and herring landings fell by 32% and 62% respectively. The upsurge in the relatively low-price mackerel (£90 a tonne compared to haddock at £472 a tonne) accounts for the only modest (5.4%) overall increase in the value of landings.

A temporary ban on mackerel fishing off the South West coast of England has been introduced to allow stocks to recover. It means activities of the larger, mainly Scottish vessels, are curtailed while the small Cornish boats can continue fishing.

OIL & GAS

Production of North Sea oil reached 1.502 million barrels a day in February. Output for 1978 was 52.8 million tonnes - considerably less than the 60 to 70 tonnes forecast in the Brown Book two years ago. Delays in setting up the terminal at Sullom Voe and slower than anticipated flow rates in fields north east of Shetland, like Thistle and Dunlin, both contributed to the failure to meet the expected target. A two month unofficial strike of offshore construction workers did not affect oil and gas supplies. The spill at Sullom Voe in January and further recent spills off the east coast have drawn public attention to environmental fears about the terminal and the ability of the oil industry to contain oil pollution.

Exploration and appraisal activity, which declined in 1978 is not expected to pick up during 1979. During the period 1975 to 1977 there were an average of 22 rigs operating in the North Sea; last year there were 14 and the UK Offshore Operators Association expect the number to fall to 13 this year. There have been some encouraging results from current appraisal wells operated by Conoco and Phillips and BP's fourth well on block 206/8 west of Shetland, where considerable exploration interest remains, again produced heavy crude oil. With long term potential in mind the Department of Energy and the oil companies are to obtain initial geological information from the north west Atlantic between Shetland and Rockall. Forty two of the forty six blocks on offer under the sixth round of licences have been allocated. Texaco and Conoco were not awarded any blocks.

Shell-Esso's £700 million development plan for North Comorant has been approved by the Department of Energy. Marathon, after considerable development difficulties are expected to present a development plan to the Department for their Brae field by early summer. It is thought that a single platform in the South Brae field will be built. The operators have opened negotiations with Occidental and BP over using either the Piper or Forties pipeline for crude oil. Initially, the high gas content will be reinjected. Recently, it was announced that Mesa is withdrawing from the Beatrice field and BNOC will become the operator and largest shareholder.

The increases in Petroleum Revenue Tax announced last August were to have been incorporated in the Budget. It may not now be implemented, although under opposition from oil companies, amendments to the plan were being considered for marginal fields. After the recent OPEC decision to raise prices an additional 9% and the cutback in Iranian exports it is expected that the price of North Sea oil, at present $15.50 a barrel will rise to $17.50 - $18.00 by the late spring.

Flaring of associated gas has risen to 700 million cubic feet a day since the build up of production from Brent which has a high gas/oil ratio. If oil output [illegible] equipment installed, flaring [illegible] available immediately, the lack of provision for natural gas liquids from Brent will either result in extensive flaring or a cut back in oil production. Cromarty Petroleum, where work on a refinery complex was halted last year, have lodged additional plans for a gas processing plant. It is not thought that an ethylene cracker at Nigg would be an adequate alternative to Moss Morran, but if the Fife scheme is rejected it would become a more attractive proposition.

FOOD, DRINK & TOBACCO

In the UK as a whole, output of food, drink and tobacco products increased by 2% in 1978, most of the growth being concentrated in the earlier part of the year. With food price rises of only 7.1% in 1978 against the general rise in prices of 8.3% a strong recovery in the demand for food might have been expected. However, the proportion of income spent on food has decreased steadily over the past twenty years as real incomes rose. This income inelasticity of foodstuffs, a consequence of consumer tastes and attitudes, goes some way to explaining why output of food did not expand as rapidly as overall consumer demand in 1978. Another possible explanation is an increase in the volume of food imports, though as yet there is no firm evidence for this.

The January 1979 Scottish CBI survey of the food, drink and tobacco industries reveals that 69% of firms in this sector were working at full capacity, compared with only 42% in Scottish industry as a whole. This industry also seems more buoyant than its UK equivalent, a balance of 8% of firms having increased output in the past four months compared with 2% in the UK. Export prospects are good, with 23% of firms having an above normal export order book. Given the earlier arguments on the income inelasticity of foodstuffs one suspects that, in large part, the strength of this sector derives from the non-food products, and in particular, whisky.

Particular developments in the food sector over the past three months include the construction of a seafood plant in Eyemouth which could provide jobs for 200 people.

WHISKY

Production of whisky in 1978 was 176,994,000 proof gallons - 16.7% higher than in 1977. Malt production increased by 22.5% and grain by 12.2% although growth in the latter accelerated during the year and the fourth quarter showed a 19.4% increase over the previous year. The outlook for world whisky consumption is more optimistic than a year ago - a number of surveys suggest sustained growth during the 1980's of 3-5%. At home, after a disastrous year in 1977, releases from bond rose by 21% in 1978. They were, however, only 1% higher than 1976 sales. Home trade prices were raised (by 9-10% excluding duty) from 1 April, but, due to the absence of a conventional budget it was not followed by the anticipated increase in duty.

Exports in 1978 rose by 12.5% in volume and 29% in value to £661.2 million. The NEDO report criticising the bulk whisky trade was published in December, and perhaps coincidentally, the increase in bulk malt shipments slowed slightly in the fourth quarter giving a 13.9% annual increase. The haulage strike and a strike by Customs and Excise officers will have reduced exports during the first few months of 1979.

The ratification of a trade package agreed between the EEC and other major Western trading powers will result in reduced tariffs on many goods including whisky. The US tax on bottled whisky, for example, added 50 to 70 cents to each bottle and its abolition is expected to bring an overall increase in US sales of Scotch. [illegible] programmes in bottling plant. Bells recently announced a further £2.3 million bottling hall at Dunfermline but Chivas' plans for a new bottling plant at Paisley entails the loss of jobs for a quarter of their 1000 employees.

CHEMICALS, COAL & PETROLEUM PRODUCTS

1978 was a year of only moderate growth in the UK chemicals industry, with output only up by 0.9% to an index level of 115.4. Growth was concentrated in chemicals, with coal and petroleum products actually experiencing a decline in output. If sterling continues to remain strong, the industry will find it difficult to maintain exports, profit margins, or both, in the intensely competitive international chemicals markets. However, possible loss of competitiveness did not hamper an increase of 24% in real capital expenditure by this sector during 1978.

Worries about the strength of sterling clearly affected respondents from the chemicals industry to the January 1979 CBI survey. A balance of 7% of firms were less optimistic about their export prospects and the main cause of this pessimism was lack of price competitiveness. In contrast, the results from the Scottish survey were less discouraging, The level of capacity working was reasonably high in Scotland, at 57% and a balance of 14% of firms claimed to have increased volume over the four months to January.

A decision on the Moss Morran project is still awaited, though some equipment for the plant has already been imported from Italy.

METAL MANUFACTURE

Output of metals fell for the third year in succession in the UK during 1978. Production was only 0.7% above 1975 levels. Investment also fell quite sharply from £511.1 million in 1977 to £366.9 million in 1978. In Scotland, only 9% of firms were working at full capacity, exactly the same percentage as in the UK as a whole. Other indicators reinforce the gloomy picture for the industry. A balance of 20% of firms expect to reduce numbers employed over the next four months, 60% felt export prospects were declining and a net 13% felt their stocks of finished goods were too high. On the other hand, a net 36% of firms increased output in the four months to January, which does suggest some recovery in the last quarter of 1978.

ENGINEERING

UK engineering output increased by 2.2% in 1978 though this was still insufficient to raise output to 1975 levels. As has been the case in recent years, there are marked contrasts within the industry. Production in shipbuilding and mechanical engineering has declined for the fourth year in succession while that of instrument and electrical engineering has risen quite sharply, by 6.2% and 5.6% respectively. In contrast to the somewhat variable output performance, investment appears to have increased in all sectors of engineering.

In Scotland, only 33% of firms in engineering were working at full capacity, though a net 5% claimed to have increased output over the last four months. Investment intentions, at least as far as plant and machinery were concerned were fairly strong and, perhaps surprisingly, a balance of 12% of firms expected to increase employment over the next four months. Price competitiveness was not seen to be as important an obstacle to export sales as in chemicals, though the most recent increases in the value of sterling will exacerbate this problem.

[illegible] of [illegible] plant in Glasgow now looks less assured because a

Peugeot-Citroen. However, the British Aerospace Jetstream, produced at Prestwick, looks likely to be successful, at least if initial US reactions to the aircraft are indicative.

The market for inspection, maintenance and repair on the UK Continental Shelf is now expected to be worth £200 million a year by the early 1980's according to the Offshore Supplies Office. Service of facilities above the water level and on land calls on fairly well established expertise and the greatest expansion is foreseen underwater. Vickers Oceanic have been acquired by a group led by the National Enterprise Board. They will form a new company to be based in Aberdeen called British Underwater Engineering. The 600 employees of Burntisland Engineers are finishing the £4 million module for the Tartan field under Texaco management. They have no further orders and will go on a care and maintenance basis, with 30 employees, after 1 May.

Demand for inspection and maintenance services of the structure of underwater platforms, notably in the northern fields, is expected to grow at a rate of 10-12% and the development of new generation tension leg deep water facilities will demand new skills.

In common with many established shipbuilding nations the British share of the declining world market fell during 1978. Ships were being completed in 1978 at twice the rate of orders being received and the outlook for 1979 is bleak with even greater competition for the still diminishing number of contracts.

British Shipbuilders estimate they will lose over £47 million in the current year, £2 million more than the target set last year. The British government, in a pre-election response to British Shipbuilders' corporate plan rejected the proposal to cut the workforce by 12,300 over the next two or three years. The government suggested a number of methods of subsidising future orders including keeping the Intervention Fund and they also announced further public sector orders.

Little recent use has been made of the government's Intervention Fund as, as anticipated, there has been a proliferation of other countries' subsidy schemes and favourable credit terms to customers. Awareness of the industry's difficulties could have been a contributory factor in reaching agreement in many yards to establish a national negotiating plan with settlements to run from 3 January. Scott Lithgow, for example, have formally requested assistance from management in finding new ways of increasing productivity.

The majority of yards in Scotland have critically low order books. Govan finish the last of their Polish ships in September and need new orders before July to avert redundancies. They are optimistic about a further Polish contract. Robb Caledon in Leith are due to complete their Polish vessel by the end of May and have no orders outstanding. They have been negotiating for the last three years for a £3 million order for two tugs for Nigeria and have called for special financial assistance to win the order. Scott Lithgow are working on a support vessel for BP and hope to secure two further orders. They are part of a consortium working on the design of a tension leg platform which could be built with current shipbuilding techniques. There has been no cut back so far on work at Yarrows on the logistics vessels for Iran and it is thought that the order is unlikely to be cancelled. The decision by the White Fish Authority to suspend grants for new fishing boats until April 1980 could have an adverse effect on prospects for the 150 workforce at Cambeltown Shipyard.

TEXTILES, LEATHER AND CLOTHING

In the UK, the buoyancy of consumer demand had little impact on output of textiles in 1978. Production actually fell by 0.5%. Although some of the demand was met by a rundown of stocks, one would have expected a somewhat stronger output performance. The January 1979 CBI Survey in Scotland, however, indicated that a net 16% of firms increased output over the past four months even though a balance of 35% had reduced employment. Again, difficulties with the exchange rate probably caused a sharp reduction in export orders. With only 50% of firms working at full capacity, investment intentions are not strong, a net 14% of firms expecting to spend less on plant and machinery over the next twelve months. However, the news that Levi-Strauss are to invest £7 million in three Scottish factories and hope to create 2000 jobs is a strong boost to the industry.

PAPER, PRINTING AND PUBLISHING

Output of this industry in the UK recovered steadily throughout 1978, to reach an index level of 114.0 in the final quarter. Capital expenditure increased by £26 million to £199.1 million in 1978 at 1975 prices but was still well short of 1973/74 levels. In Scotland, performance has been mixed. A number of paper-making firms, particularly concentrated in Fife, have made some recovery from the depression which occurred in the industry in 1975 and 1976 and are reasonably optimistic about the future. However, lack of capital investment in the wood-pulp mill at Corpach looks set to cause its closure. If it has any future it would seem to be in producing newsprint rather than woodpulp. Most general publishing houses, as one might expect given recent increases in consumers disposable income, are fairly buoyant.

CONSTRUCTION

After a sharp increase in the second and third quarters of 1978, output of the construction industry in the UK fell to an index level of 105.0 in the fourth quarter. This reduction was mirrored in Scotland where new orders received by contractors fell by 9.4% between the third and fourth quarters. Adverse weather and delivery difficulties caused by the lorry drivers dispute will have further reduced production in the first quarter of 1979. The value of new orders for public housing in Scotland is still continuing to fall. Even at current costs, orders for 1978 were 24% down on those for 1977. In contrast, private sector housing orders increased by 76% to nearly £200 million in value, more than double the public sector total. A quite remarkable change in taking place in Scotland's housing market which, if it continues for a number of years, will have profound social, as well as economic implications. Private sector housing is growing rapidly as a result of increased demand while growth in the public sector is limited both by the willingness of local authorities to undertake large developments and by financial stringency. This implies that the balance between private and public sector housing in Scotland is moving toward the present UK structure where the private sector accounts for a much largerproportion of the market.

There have been no orders for platform yards since last summer although an order for a 24,000 ton steel platform for Shell-Esso's North Cormorant field is to be placed within the next few weeks. The Italian company Techomare is to design a triangular based steel gravity platform for the Maureen field and contracts for the construction of the platform and deck facilities are to be awarded later in the year.

McDermott's first export order for Brazil, a steel jacket, sank while on tow in the North Sea. There is concern that the incident may damage future offshore export orders. At McDermott's, 450 of the 2500 workforce are to be made redundant at the end of the month. A strike in January and February affected [illegible]

After lengthy negotiations between Marathon and the British government about the price of the jack-up rig to be ordered by BNOC and British Gas, a financial agreement has been reached. The jobs of the 1100 workforce, due to be made redundant at the end of April, are secure for another fourteen months. The government have agreed to cover losses suffered by Marathon over and above the £11 million price to be paid by the purchasers and to a form of 'loan adjustment' on outstanding debt.

EMPLOYMENT AND UNEMPLOYMENT

As shown in Table 1 below, employees in employment in Scotland in September 1978 were estimated to number 2,086,000, an increase of 28,000 over March 1978, but an increase of only 9,000 over June 1977.

Table 1 Employees in Employment : Scotland and England & Wales ('000)

Scotland	Total	Males	Females	Manufacturing	Manufacturing/ Services
Sept. 1977	2077	1203	874	616	0.52
March 1978	2058	1190	868	610	0.52
Sept. 1978	2086	1201	885	614	0.51
England & Wales					
Sept. 1977	20150	11942	8208	6626	0.58
March 1978	19998	11822	8176	6566	0.57
Sept. 1978	20214	11915	8299	6573	0.57

Notes: Data are subject to revision

Source: Department of Employment Gazette

In Scotland, both male and female employment were greater in September 1978 compared with March of that year, but only female employment had risen above the level of September 1977. Employment in manufacturing also increased between March and September 1978, but was lower in both months than in September 1977.

As Table 1 demonstrates, the pattern of employment change in Scotland was similar to that experienced in the rest of Great Britain, with both areas showing employment increases in every category between March and September 1978. The relative increase in employment in the second and third quarters of 1978 was greater in Scotland than in England and Wales. The final column of Table 1 indicates that the ratio of manufacturing to service employment remained virtually constant over time in both Scotland and the rest of Great Britain, suggesting that employment changes in these two sectors moved roughly in parallel over the period as a whole. These figures also illustrate that the proportion of employment in manufacturing is persistently lower in Scotland than in England and Wales.

In Scotland, total registered unemployment rose in the first quarter of 1979 to reach 182,997 (including 8344 school leavers) by March. Even if school leavers are excluded unemployment in Scotland was about 9,000 higher in March 1979 than

Table 2 Regional Unemployment and Vacancies in the UK March 1979

Region	Unemployed[1] ('000)	Unemployment rate[3]		Vacancies[2] ('000)	Unemployment/ Vacancies[3]	
South East	284,600	3.8	(3.7)	110,600	2.6	(2.7)
East Anglia	33,500	4.8	(4.6)	6,800	4.9	(4.6)
South West	93,700	5.8	(5.9)	15,000	6.2	(6.4)
W Midlands	120,800	5.2	(5.1)	14,000	8.6	(8.5)
E Midlands	75,000	4.8	(4.7)	15,300	4.9	(4.7)
Yorks & Humber	118,300	5.7	(5.4)	15,600	7.6	(7.0)
North West	193,400	6.8	(6.7)	19,200	10.1	(10.6)
North	114,600	8.4	(8.2)	10,200	11.2	(9.7)
Wales	84,800	7.9	(7.7)	7,900	10.7	(9.6)
Scotland	171,300	7.7	(7.5)	19,800	8.7	(8.2)
Great Britain	1,289,900	5.5	(5.4)	234,700	5.5	(5.5)
N Ireland	60,500	11.1	(10.7)	1,200	50.4	(41.6)
UK	1,350,400	5.7	(5.5)	235,900	5.7	(5.7)

[1] Seasonally adjusted, excluding school leavers

[2] Seasonally adjusted, excluding vacancies notified to careers offices

[3] Figures for December 1978 in brackets.

Source: Department of Employment

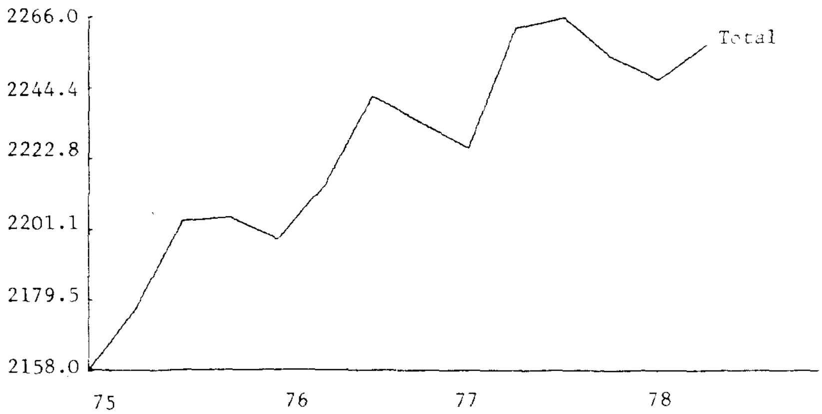
unemployment, compared with a fall in the latter part of 1978, may have been caused by a combination of the extremely bad weather which has adversely affected the construction industry in particular and the effects of recent industrial action, such as the lorry drivers' strike. Clearly, in the circumstances it is difficult to guage the underlying trend of Scottish unemployment at present.

Table 2 gives a regional analysis of UK unemployment and vacancies in March 1979 (provisional). As column 3 shows, virtually every UK region had a higher unemployment rate in March 1979 than in December 1978, indicating that the factors leading to higher Scottish unemployment over the period discussed above evidently operated on a nationwide basis. Strangely, vacancies notified increased in almost direct proportion to unemployment, so that the unemployment/vacancies ratio for the UK as a whole remained constant at 5.7. Analysis of the unemployment/vacancies ratio for individual regions, however, indicates that changes in unemployment and vacancies were not proportionate throughout the country. Scotland remained 4th highest in terms of unemployment rates, as it had been in the previous two quarters. The unemployment relative for Scotland/Great Britain was 140, slightly higher than the figure of 139 recorded in December 1978.

Total labour supply in Scotland can be crudely estimated by adding together employees in employment and registered unemployed. As defined, the labour supply in Scotland was 226,600 in September 1978, an increase of 8,000 over the previous quarter. This increase was wholly composed of females, male labour supply dropping marginally. As Figure 4 shows, the labour supply in Scotland after declining in late 1977 appeared to be rising again in mid 1978towards the previous peak recorded in mid 1977. As discussed in the previous Commentary, such short-term changes in labour supply will be largely caused by seasonal factors, and it is not yet clear that the underlying trend of rising labour supply observed since 1975 has altered.

LABOUR SUPPLY IN SCOTLAND

Figure 4



Source: Department of Employment

Table 3 shows the unemployment rate and vacancies notified in Scottish regions in March 1979 (actual figures of unemployed not available due to civil servants strike action). Unemployment rates were higher in every Scottish region in March 1979 than in December 1978, but the relative positions were virtually unchanged. Western Isles and Highlands continued to have the highest unemployment rates, while Shetland and Borders had the lowest in both months. Vacancies notified were slightly higher overall in Scotland in March, but there were considerable differences in individual regions. Seven regions had a greater number of vacancies in March compared with December, the greatest absolute increase being in the Highlands with 523 additional vacancies; while three regions had fewer vacancies, with Lothian showing the largest reduction at -273.

In summary, the first quarter of 1979 was clearly not a good one for employment, with unemployment showing a rise over the previous quarter at both national and regional level. This may have been caused by severe winter weather combined with a series of industrial disputes, in which case improvements in these factors should, all things being equal, mean a better set of employment statistics in the second quarter of 1979. Over the longer term, however, changes in the level of unemployment in Scotland are likely to be substantially dependent on the performance of the UK economy as a whole.

Table 3 Unemployment Rate and Vacancies Notified by Scottish Regions March 1979

Region	Unemployment Rate %*		Vacancies*	
Borders	4.5	(4.0)	399	(315)
Central	6.9	(6.5)	841	(833)
Dumfries & Galloway	8.7	(8.3)	293	(293)
Fife	7.7	(7.3)	900	(943)
Grampian	5.0	(4.5)	2097	(2097)
Highlands	10.8	(9.7)	1212	(689)
Lothian	6.6	(6.1)	3334	(3607)
Strathclyde	9.5	(9.0)	9720	(9382)
Tayside	7.9	(7.5)	1403	(1414)
Western Isles	16.7	(14.1)	105	(77)
Orkney	6.3	(5.4)	61	(23)
Shetland	3.4	(2.9)	249	(321)
Scotland	8.3	(7.8)	20614	(19904)

* Figures for December 1978 in brackets. Unemployment rates include school leavers and are not seasonally adjusted. Vacancies include those notified at careers offices.

Source: Department of Employment

OUTLOOK AND APPRAISAL

Before considering the short-term outlook for the Scottish economy, this would seem an appropriate time, given the imminence of a general election, to appraise the performance of the Scottish economy over the period while the present government has been in office.

First, consider the behaviour of the targets of government policy. Using the most recent statistics available, some key indicators of Scotland's recent economic performance are shown in Table 4.

Table 4

Indicator	Levels		Time Period		Units
Manufacturing Output	107.9	104.2	Q4. 1974	Q2 1978	Index : 1970 = 100
Manufacturing Emplmt.	676.1	611	June 1974	June 1978	'000s : June 1978 (figure provisional)
Total Employment	2084	2079	June 1974	June 1978	'000s : June 1978 (figure provisional)
Unemployment Total	84.0	175.6	Oct. 1974	Oct. 1978	'000s
Unemployed School Leavers	1.2	10.5	Oct. 1974	Oct. 1978	'000s
Unemployed excluding School leavers and Students	84.6	171.3	Oct. 1974	Mar. 1979	'000s seasonally adjusted
Unemployment relative Scotland/GB	150	138	Oct. 1974	Mar. 1979	Ratio : 100 x $\frac{\text{Scotland}}{\text{GB}}$ unemployment rate
Average weekly earnings- males	46.0	88.5	Apr. 1974	Apr. 1978	£'s
Average weekly earnings - females	25.7	54.6	Apr. 1974	Apr. 1978	£'s
Retail prices	106.1	194.6	Apr. 1974	Apr. 1978	UK Index Jan. 1974=100

The figures do not present a very encouraging picture of the development of the Scottish economy between 1974 and 1979. Manufacturing output and employment have both fallen, the latter by an estimated 9.6%. Total unemployment has more than doubled and the increase in the number of unemployed school leavers has been even more dramatic. Average male weekly earnings have risen by 92% but prices have increased by almost the same proportion so that, in terms of gross earnings at 1974 prices, the real increase between April 1974 and April 1978 was only 4.9%.

However, one should be extremely cautious about interpreting this table as an indication of the failure of government policy for two main reasons. Firstly, [illegible] unemployment is rising rapidly in both areas. Further, increases in real wages for females, perhaps influenced by equal pay legislation, have been much greater, both in absolute and percentage terms, than for those for males. Also, since more recent figures are not available, the rapid rise in real incomes which occurred between April 1978 and the present cannot be included in the table. In the UK as a whole, average earnings rose by 13.5% in the twelve months to December 1978 while prices only rose by 8%.

Secondly, one must be aware that the ability of the government to influence the overall development of the economy is really quite limited. Many external factors, over which government control is negligible, have contributed to the present weakness of the Scottish economy. Take two examples: the world wide depression which followed the 1973 oil crisis caused substantial balance of payments difficulties in almost all western countries. In Britain, these culminated in the sterling crisis of late 1976 after which the government found itself forced into a deflationary stance by the IMF. There followed a rapid rise in unemployment. Now, one could argue that the authorities mistimed their response to the oil price hike and that deflationary action should have been taken sooner. However, the responses of other European nations were different both in substance and timing from that in the UK. Yet, almost without exception, they now face similar problems of high unemployment. Between 1974 and the final quarter of 1978 unemployment in Holland rose by 57%, in West Germany by 62%, in France by 168%, and in Italy by 195%. In the UK, the rise was 127%. Thus, though by historical standards, our recent unemployment record is very poor, by current European standards it is only moderately bad.

As a second example, consider the problem of unemployment amongst young people. Though chronic by historical standards, a large part of this problem is attributable to demographic influences for which the government cannot be held responsible. Over the past few years there has been a substantial increase in the number of young people entering the labour market and this is purely a function of high birth rates during the early sixties.

The most disturbing symptoms of economic malaise to emerge from Table 1 is the continuing decline in manufacturing industries, both in terms of output and employment. Manufacturing employment has fallen more rapidly in Scotland than in the whole of the UK since 1974. The shortfall in employment has largely been met by an expansion of services but there are no clear reasons why one should expect services to indefinitely absorb excess labour from the manufacturing sector. Indeed, the most immediate effects of microprocessor technology are likely to be on clerical and secretarial jobs with the consequent possibility of some reductions in service employment.

Consider now the instruments which government has used to tackle Scotland's problems. The nature of government policy with respect to the manufacturing sector in the depressed regions has changed considerably over the past five years. Three pressures have largely been responsible for this. Firstly, government spending has been under severe pressure following the sterling crisis mentioned earlier. Consequently, government has been constrained in its ability to assist industry financially. Secondly, at least in certain sections of government, probably as a result of the growing influence of the monetarist school of economic thought, the belief that industry will perform better when government intervention is reduced rather than increased, has gained some ground. This has had the effect of calling into question the usefulness of governmental assistance to industry in depressed areas. Finally, and related to this latter change of view, the opinion that assistance should be selective in its industrial coverage has gained ground. The emphasis has shifted somewhat from depressed regions to [illegible] clear criteria for the

As a result of these pressures, government financial assistance to industry in Scotland has fallen substantially in real terms. Government spending on trade, industry and employment rose from £205.9 million in 1973/74 to £329.6 million in 1977/78 at current prices but in real terms this represents a decline of around 17%. Of course, the most important element of this reduction was the withdrawal of regional employment premium in December 1977 for exactly those reasons outlined above. In 1976/77 the value of this subsidy to Scottish industry was £79.1 million. In the short-term, this must have had detrimental effects on profitability and employment. Whether offsetting tax reductions made possible by these spending cuts would contribute more to the long-term strength of the Scottish economy is not clear. The fact that tax cuts in the UK apparently cannot be made spatially selective, coupled with the high import propensities of UK residents, suggests that this is doubtful.

Arguably another result of the increased emphasis on selectivity has been the establishment of the Scottish Development Agency which was set up to seek out areas of Scottish industry in which profitable investment could be undertaken. Though the amounts which have been committed so far have been modest relative to overall government spending on trade and industry in Scotland, the Agency has the potential to strengthen some areas of the industrial base. Nevertheless, even if the policy of the agency were to maximise employment, on its present scale of funding there is no possibility of its being able to reverse the decline in manufacturing employment. Further, when its own activities are hampered by lack of co-operation from other government departments, as was apparently the case during the recent Mostek fiasco, the potential of the Agency may not be realised through no fault of its own.

To summarise then, there is little doubt that the Scottish economy is weaker now than it was in 1974. How much this is due to the inadequacies of policy is difficult to ascertain. However, one can point to some factors, such as the removal of regional employment premium, which undoubtedly have had a detrimental effect on the economy, at least in the short-term. Further, it now seems likely, whichever party wins the next election, that regional policy, given the prevailing economic orthodoxy, will enter a 'passive' phase where assistance to the development areas will be tied to specific industries or projects. Whether the Scottish economy is now sufficiently robust to accommodate such a change remains to be seen.

The outlook for the Scottish economy over the next six months is one of continued slow growth in output, of the order of 2-2½%. Growth in the real money supply over the last six months indicates that demand should remain reasonably buoyant, though an increase in the rate of inflation may curtail this somewhat. The recent strength of sterling has offset increasing world commodity prices and lessened their impact on the rate of inflation. To maintain sterling at its present level, and so attenuate the inflationary impact of increased commodity prices, the authorities must show their determination to adhere to current monetary targets, though this may have an adverse short-term effect on exports. The difficulties of containing the money supply have been increased by the election campaign during which expectations of increases in expenditure or cuts in taxes have perhaps been lifted beyond the capacity of the government to fulfil them. Secondly, so-called 'comparability' studies for public sector workers will inevitably place a stress on public sector borrowing, and so on the money supply during the next twelve months and halt the movement of resources from the public to the private sector.

In Scotland, with output likely to rise only very slowly during 1979, prospects for employment are, once again, gloomy. The current, seasonally adjusted level of unemployment is 171,300. We would expect this to drift slowly down to around 166,000 by June.

Earlier in the Commentary it was pointed out that:

(a) Scotland now has a higher proportion of service employment than does the UK as a whole

(b) Assistance to industries is now moving toward a much more selective basis

(c) The service sector has continued to expand employment in Scotland while manufacturing has run down

Also, it was noted that one cannot assume that the service sector should indefinitely absorb surplus labour. Little assistance is given to the service sector by government and therefore Scotland is at a slight disadvantage in having a relatively high share of service industries. There is no clear strategy for the service industries in development areas even though, relative to manufacturing, encouragement of services may be an extremely cost-effective means of encouraging employment growth. One would hope that the next administration will give some more consideration to the service sector, initially by gaining a fuller understanding of how it operates.