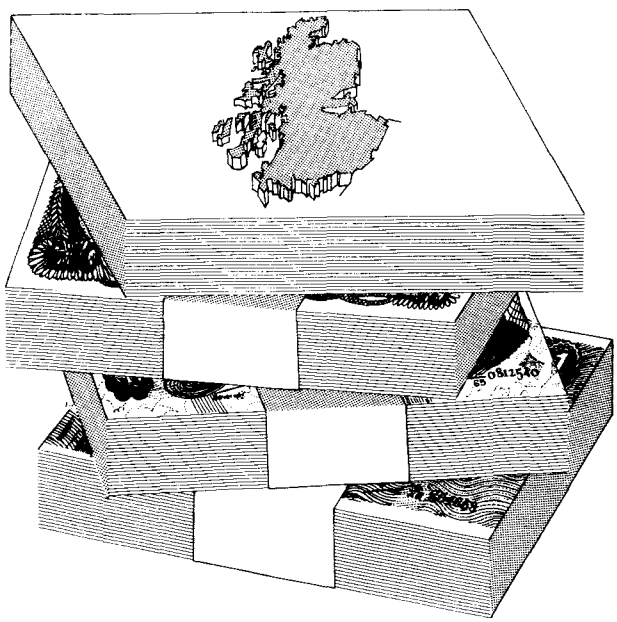
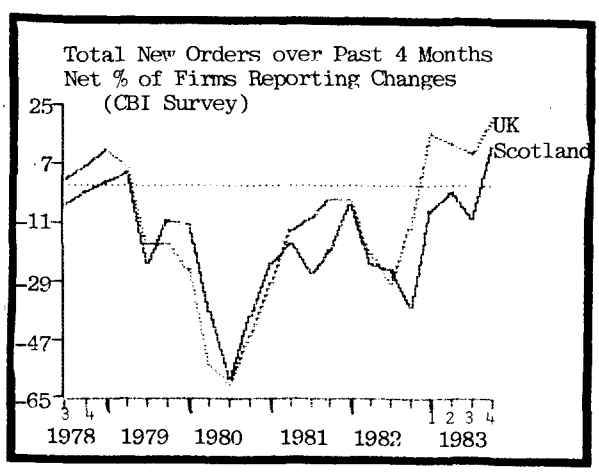
Industrial Performance



Graphs of Industrial Production in each sector have been omitted from this edition as the latest published data available on going to press refers to activity one year ago. The graphs will be resumed when more up to date information becomes available.

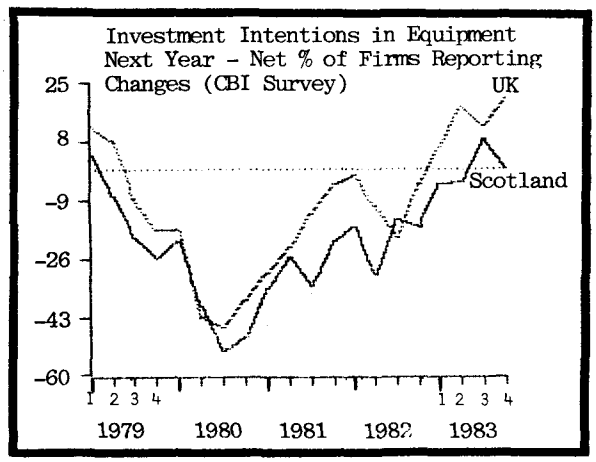


BUSINESS SURVEYS

The January CBI Industrial Trends Survey indicates that optimism in Scottish industry concerning the general business situation has improved since October. Twenty-six per cent (26%) of respondents are more optimistic about prospects for their industry than they were four months ago while only thirteen percent (13%) of respondents are less optimistic. Despite these improved figures, business optimism in Scotland would still appear to be less buoyant than in the United Kingdom as a whole.

The principal source of increasing optimism amongst Scottish firms is the expectation that recent increases in the volume of new orders and output will be sustained over the coming four months. It is noticeable, however, both with regard to orders and output, that it is domestic rather than overseas demand which has stimulated activity most. Bearing in mind that the competitiveness of UK firms is now back to 1979 levels, the disappointing export performance must be in part attributable to slow growth in traditional British export markets. After contracting by almost 2% during 1982/83, these are now likely to expand by about 4% during the coming year. Nonetheless, it remains true that responses to the CBI survey indicate that since the first quarter of 1980 Scottish export performance in CBI surveys has consistently been inferior to that of UK industry in general. To what extent this is attributable to the structural composition of the Scottish economy and to what

extent it reflects poorer competitiveness of individual industries is not altogether clear. Scotland's industrial sector is marginally more heavily biased towards the production of capital and intermediate goods than British industry as a whole. While total British exports of consumer goods rose slightly during 1983, exports of intermediate and capital goods fell significantly. Though structural factors may account for a poorer Scottish export performance in 1983, it is harder to see how they might explain the falling off in export optimism amongst Scottish firms in the most recent Survey taken against a background of accelerating growth internationally.

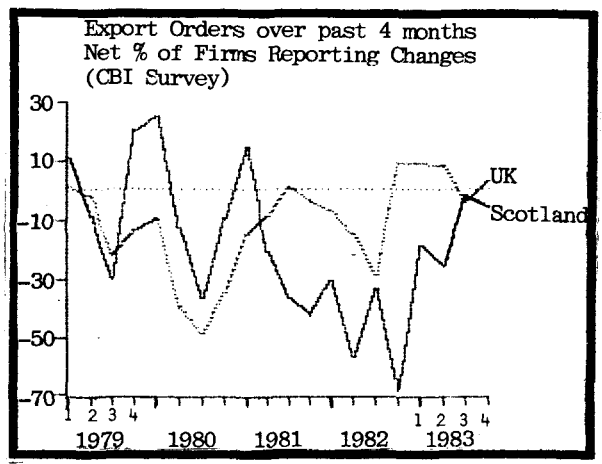


Returns from the Survey suggest no marked increase in investment expenditures over the coming year. Tne picture is more optimistic for plant and machinery than for investment in buildings, however. For the former, the percentage of respondents who expect to authorise less expenditure is matched by those who expect to authorise more. In contrast, there is a negative balance of fourteen percent intending to authorise less capital expenditure on buildings. The corresponding data for the UK show a similar pattern but again suggest that Scotland is experiencing a milder recovery than other regions of the UK. Regardless of the stimulus additional investment may give to output, it is unlikely that significant increases in numbers employed will follow in its wake. This is confirmed in the January survey both by the fact that the balance of respondents expecting to reduce employment is almost unchanged since October and by the fact that the majority of investment expenditures appear to be motivated by the desire to improve efficiency rather than to expand capacity.

Looking behind the aggregate figures two features of the January Survey are worthy of comment. First, small to medium sized firms seem to be experiencing more pronounced recovery than are larger firms (those with in excess of five hundred employees). Medium sized firms, in particular, (one to five hundred employees) are particularly bullish in their outlook though it must be remembered that responses are measured in relation to a very low base. The second noticeable feature of the disaggregated data is that consumer industries would still appear to be faring better than intermediate or capital good industries. While latest indicators show no slowdown in the growth of consumer expenditure, UK data do tend to suggest that the recovery in output is tending to become more broadly based as exports expand.

Responses to the Glasgow Chamber of Commerce December Survey are in broad accordance with those of the CBI Survey. For the last quarter of 1983, a balance of seventeen percent of respondents report an increase in home sales but those experiencing a decline in export sales outnumber those reporting an increase. Prospects for export orders suggest little improvement on this front in coming months. The only major contrast between the CBI and Chamber of Commerce Surveys is in responses to questions on investment intentions.

On this front, the picture painted by the Chamber of Commerce Survey is altogether more sanguine. Positive balances of twenty-seven and fourteen percent report upward revisions to investment intentions with regard to plant and machinery and buildings, respectively. These figures, however, should be treated cautiously (in the light of the CBI survey) and may simply be a consequence of an unbalanced sample. Nonetheless it is interesting to note that respondents to the Chamber of Commerce Survey do expect profits to improve significantly over the coming three months, an expectation certainly consistent with their declared investment intentions.



There is now an increasing volume of evidence that 1984 may see more rapid growth in Scottish output. How broadly based this growth will be is as yet unclear. Capital goods and export orientated industries are those for which prospects seem least certain. Furthermore, survey responses suggest that output growth in the industrial sector is unlikely to cause unemployment to recede significantly in the coming twelve months. Productivity growth is likely to at least keep pace, if not outstrip, output growth. Finally, with hindsight, it is now clear that while the contraction in Scottish activity during the recession may not have been as severe as that elsewhere in the UK, Scotland's recovery has to date been slower than that of the country as a whole.

AGRICULTURE

After some of the worst winter weather for many years the plight of Scottish farmers has not been helped by delays in the payment of the Hill Livestock Compensatory Allowance (HLCA) and other cash due under EEC-funded capital grant schemes. The delays arise because of the failure by farm ministers of EEC member states to agree to the proposed 'Rollover' of funds for the schemes devised within the Less Favoured Areas directive, which expired at the end of December. It is unfortunate that HLCA's are generally paid out at the start of the year, but farmers will, at best, now have to wait until late February/March even if recent British moves to accelerate payments through domestic channels are successful.

The EEC has introduced a number of additional measures in an attempt to forestall an imminent budget crisis. One of the most important as far as Scottish farmers are concerned is the increased delay in payments for grain put into intervention store. Normally payments are made approximately 30 days after acceptance but under the new regime farmers can expect to wait between 120 and 140 days. It is estimated that, given current prices and interest rates, farmers face an effective drop in price of around £4 per tonne. Cereal prices in Scotland have tended to fall since the start of the new year, with the continuing weakness in feed wheat prices ensuring that feed barley prices will remain low despite the shortage of supplies. While the decision to delay intervention payments has been particularly important for cereals producers, livestock farmers will also face similar delays later in the season as increased supplies are offered to the intervention agency.

Sheep marketings have been reduced by the recent adverse weather and prices have remained high though still some 60 pence below guide price levels (231.9 p/kg) at the end of January. France remains an attractive market for British sheepmeat, with prices currently around 250 p/kg. Prospects for British suppliers will be determined more by bureaucratic processes than by the intimidating behaviour of French farmers. Official barriers to British sheepmeat exports have recently increased with the number of ports licensed to accept meat being reduced, health tests on UK lamb being made and customs documentation and markings being scrutinized rather thoroughly, all very much in keeping with the British reaction to increased French exports of UHT milk to the UK. Nevertheless 1983 was a good year for Scottish exports, 76% of ewes killed in Scotland being exported compared to just 20% the previous year.

Milk producers can also expect delays in intervention payments. These have typically been up to 60 days in the past, but will now increase to as much as 140 days. This will mean extra interest charges to the creamery equivalent to around £40 per tonne of butter. Milk producers can consequently expect lower prices. Total Scottish milk production in 1983 was 3.8% higher than in 1982 but liquid sales by dairies fell by 0.6%. These trends parallel those in the UK where production rose by 3.9% to around 103m tonnes in 1983. This is 6% over the EEC guarantee threshold of 97.2 m tonnes. Milk production is forecast to continue rising over the medium term with an ever widening gap between supply and demand. Whilst many sectors of farming activity present problems for the EEC it is dairying interests which remain the most intractable.

In an attempt to limit milk production Britain has already halted capital grants to producers. Most farmers in Scotland now accept reluctantly that policies to reduce the over-supply situation must be introduced. Scottish farmers tend to favour a quota system, arguing that this would be less unfavourable to them than price controls, which are the main alternative. Under a price control system large milk producers in the south of England, with lower costs and a longer period of peak production, would be better placed than farmers in Scotland where margins are much smaller. A quota system would not favour low cost producers in this way. The differing interests of Scottish and English milk producers are a microcosm of problems at Community level. Lower milk prices will favour low cost suppliers at the expense of marginal producers in disadvantaged areas. Considerations of economic efficiency must be set against those of regional policy, hence the impasse.

Previous paragraphs have all noted the impact of current EEC policy on Scottish farming. Indeed EEC machinations are now the single most important determinant of farm incomes. However it is becoming increasingly clear that the EEC commission will no longer be able to reconcile the maintenance of farmers` living standards with the preservation of a common agricultural policy. In the final analysis farm incomes will be sacrificed to maintain a CAP - even a changed CAP. As a first step in this direction the 1984 Price Review proposed selective price cuts or price freezes, and realignments of 'green' currency exchange rates with a revaluation of 4% proposed for the `green pound`. The net effect of the proposals for the 1984/85 prices of a variety of products are as follows:

TABLE 1 : EEC COMMISSION PRICE PROPOSALS FOR 1984/85

	% changes over 1983/84
Cereals intervention price	-4.0
Milk target price	-4.0
Butter intervention price	-15.4
Beef guide price	-2.5
Sheep guide price	-2.5
Sheep reference price	+1.5

Source: East of Scotland College of Agriculture: Monthly Economic Survey. February 1984

In addition the EEC is considering other proposals, including the dairy quotas discussed above, abolition of the UK butter subsidy, general reform of the Sheepmeat Regime, abolition of the Beef variable premium and stricter intervention quality standards for cereals. The detailed proposals within the Sheepmeat Regime reforms have been strongly criticised as being flagrantly anti-British - and hence anti-Scottish bearing in mind the importance of sheep for the Scottish farmer.

In the short-term it may be reassuring that these are only proposals and as such likely to be implemented in some watered down form. But Scottish farmers must now realistically expect to face lower incomes. This is especially true for those in upland areas where it is difficult for farmers to switch to alternative systems.

FISHING

The volume of fish landed in Scotland by UK vessels in the first ten months of 1983 was 393,800 tonnes, valued at £318.8m. Tnis represents an increase of 1% in volume over the same period in 1982 and a 13% rise in value. Vastly increased catches of herring and sprat, relative to their 1982 levels, served to lower prices by around 10%. Most other species enjoyed higher prices, notably whiting, for which average prices to October 1983 were 57% higher than in the previous year.

Data on Scottish and UK fishing activity up to 1982 - the latest year for which complete data are available - show that Scotland came to dominate the UK scene to an increasing degree from the late 1970's onwards. The Scottish sector has in addition fared better than the UK as a whole in some respects. The volume of landings in Scotland by UK vessels in 1982 was about 17% higher than in 1978, and in only one year during this period was there a decline in the size oi the catch. By contrast, the absolute volume of landings in the UK, by UK vessels, contracted by almost one-fifth between 1978 and 1982, with the downward trend reversed only in 1981.

Scottish vessels were partly responsible for the increased activity at

Scottish ports, but they shared in the overall decline of the catch: the volume of landings by Scottish vessels in Scotland rose to 470,000 tonnes in 1982 but their landings in the UK as a whole were lower in that year than in 1978 (although they had been rising relative to intervening years).

LANDINGS ('000 TONNES)

Landings By	Scotland		UK	
	1978	1982	1978	1982
Scottish vessels	420.5	470.2	571.4	529.0
All UK vessels	426.1	497.0	955.9	772.4

Source: Scottish Sea Fisheries Statistical Tables, 1982

These general statistics, of course, conceal differences in the catches of the main species. The reduced volume of the UK catch was mainly in pelagic species. The 43% reduction over the period in pelagic landings was in turn almost entirely due to a decline in the mackerel catch (the well-known slump in herring fishing having made its impact some years before). To some extent, this was the source of the divergence in the UK and Scottish catches, because Scotland experienced a short and much less severe drop in mackerel landings - stocks were more plentiful around the Scottish coast, particularly after the reopening of the West Coast grounds after 1981. A further feature has been the steadily increasing share of the UK haddock catch amounting in 1982 to over 80%, landed at Scottish ports. Again, fishing in the sea areas closer to Scotland i.e. the north and central sections of the North Sea, yielded considerably larger total catches from 1980, providing some explanation of the increased activity in the Scottish section of the industry.

The annual agreement between member states on shares of available fish stocks in EEC waters was reached in January for 1984. In total, the United kingdom has been allocated in excess of 640,000 tonnes in the seven main species, bringing its share of the total catch to just over 39%. Within that total, there are reductions in allocations of cod, haddock and whiting relative to 1983 levels of 10%, 3% and 12% respectively, and Scottish fishermen will have to adapt to lower cod and haddock catches in the North Sea. There is some compensation in the increased UK share of EEC mackerel. Herring has not been included in the allocations for 1984, and is the subject of an interim agreement, pending the outcome of scientific advice due in May, on stocks in the three North Sea areas. The interim arrangement gives British boats access to 12,520 tonnes of herring from the North Sea up to the end of July. Thereafter the EEC Commission must negotiate its share in the final allowable North Sea catch with Norway before making allocations to member countries.

CONSTRUCTION

The total value of new orders received by contractors in Scotland fell in the third quarter of 1983 to £313.5m, 17% lower than the previous quarter but almost 40% higher than in the third quarter of 1982. While new housing orders rose in the quarter, demand for other types of work, particularly from the public sector dropped. The boost provided in early quarters by the public transport and energy sectors, and through

orders for roads, harbours and health amenities, failed to continue into the third quarter with public sector orders for non-housing work falling by 40%, to £113.5m. In the private sector, orders for new offices, garages and entertainment venues continued to improve on a poor initial start, but orders for industrial contracts continued to slip back. A fall at this stage would seem to indicate that recovery in the construction industry is as yet fragile.

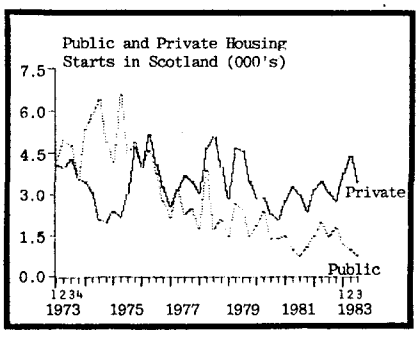
New buildings feature prominently in orders recently awarded in Scotland. Fairclough Scotland has begun work on the annexe to the National Library in Edinburgh, a contract worth £8.5m in total. Work is now underway on the construction of an extension to the National Semiconductor Factory at Greenock, the contract being managed by Fairclough Projects. The new accommodation will cost £11.4m and is expected to be completed and ready for production in less than twelve months from the date of commencement. The Whatlings Construction Group has been awarded a contract worth £4.6m for the building of a new school and fire station in Glasow; Whatlings also received work on the new Britoil offices in Glasow. A £1.1m contract was awarded to the company, while a £5.25m contract was negotiated by Sir Robert McAlpine for sub- and superstructure operations on the same site due for completion in mid-1985. In Edinburgh, a £4.5m order for a new supermarket complex has been placed with William Moss Construction.

Among new orders for civil engineering work is the £12m contract from the Scottish Development Department to Norwest Holst for the construction of the Wellburn-Poneil section of the M74 in Strathclyde. The 4.7 km section of the Ediburgh city by-pass at Sighthill is expected to cost in excess of £23m and will include one of the major contracts of the year worth about £17m. Two important road contracts, in Dumfries and Galloway and Lothian are soon to be finalised, and the combined value of these contracts will provide a significant boost to this area of construction. Orders in 1983 for roadbuilding were at levels considerably below those of earlier years.

Provisional figures for public and private housebuilding for the third quarter of 1983 show a decline in the number of dwellings started in Scotland. The total is put at just over 3900, down by 29% on the preceding quarter and more than 10% lower than the same quarter of 1982. The number of starts in the public sector fell over the quarter by 366, continuing the downward trend since the end of 1982. New orders from the public sector have shown some improvement during 1983, which may modify the extent of the decline in public housebuilding. Private sector starts in the third quarter were 3400, a fall of 600 on the previous three months. The National Housebuilding Council confirm a downturn in private starts in the latter half of 1983, with numbers in the fourth quarter down by a further 700. For 1983 as a whole, there were 13,600 private sector starts, a major increase relative to previous years. Similarly, the number of private houses completed in Scotland, at 11,600, was the highest since 1979. It is unlikely that these high levels will be sustained in 1984, although any downward movement of interest rates would tend to increase housing demand.

House prices in Scotland rose by an average of 11% during 1983, compared with a rise of 12% in the UK as a whole, according to the Nationwide Building Society's quarterly review. The increase in prices was most notable in the case of older properties which rose by 16% over the year bringing their average price to £25,190. New property prices, however, rose

by only 7%, just ahead of the rate of inflation. Elsewhere in the UK, the price of new properties rose more rapidly, recording an average increase of 12%, though this conceals wide variations, from a 17% rise in the South East to static prices in Greater London. The most expensive properties in Scotland, on the basis of average price during last year, were new detached houses (£42,150), while the least expensive were modern terraced houses (£22,680).



The shift in the relative significance of the public and private housebuilding sectors in Scotland since 1973 can be seen from the graph of new housing starts. The private sector overtook the public as the dominant force in Scottish housebuilding as far back as 1975 and has grown in importance since then - its share of the starts in 1982 was 65%. The public sector contribution to new housing has been on a downward trend since 1978, and in some years has fallen below 30% of the total.

Construction activity is expected to rise only moderately in 1984. New housebuilding, one of the more buoyant sectors of construction last year, is not expected to continue at 1983 levels. However, it is anticipated that repair and maintenance work, despite the cut in grant levels, will fill some of the gap left by public authority capital spending - albeit at a more restrained pace than in 1983. In other areas, there is an expectation that private industrial building will increase from its present low base, though the most recent CBI Survey does not support this view, while increased demand from nationalised industries may be constrained by the availability of funds for capital spending. Overall growth is not expected to exceed 1% in volume terms.

OIL & GAS

North Sea exploration reached record levels during 1983, with 226 exploration and appraisal wells drilled during the year. Of this total 80 exploration wells were in the UK, sector 14 of which produced oil or gas discoveries. By comparison, in 1982 81 wells were sunk in the UK sector of which 10 produced discoveries. The high 1983 success ratio, combined with a resurgence of interest in the southern North Sea in the wake of higher gas prices, should ensure that offshore UK exploration and appraisal activity remains buoyant in 1984. 22 wells were also drilled **onshore** in the UK in 1983, up 24% on the 1982 figure. Prospects for high levels of onshore activity in 1984 are considered good, especially since the Department of Energy issued a record 63 onshore licences during the past year, including one to BP for the Firth of Clyde.

Several new field developments have been announced in recent months. Britoil are to install a third (unmanned) platform on the Beatrice field at an estimated cost of £60 million. The platform jacket order is expected to be placed soon. Texaco have announced the development of the Highlander field using remote sub-sea connections from Tartan at a cost of £100 million. With estimated reserves of 30 m b, Highlander is one of the smallest fields under development in the North Sea.

Other development announcements are likely in the near future as various negotiations reach successful conclusions. BP have announced agreement with the Department of Energy on the method of exploiting the S.E. Forties extension involving a new unmanned platform. Development costs will be around £450m and the project could add 50,000 bpd to Forties output. Shell appear to be near agreement with British Gas on a development plan for S E Indefatigable, which would supply gas only during peak periods. BG are to provide compensatory payments during off-peak times. This is the first such deal which BG has made with an outside operator. The Audrey field, from which BG agreed to buy gas before any appraisal drilling had been undertaken, seems likely to be developed. The first appraisal well realised almost 35m ft^3 pd of gas and if further appraisal is satisfactory production could begin in October 1986.

On an assumptions that dollar oil prices remain stable and a dollar exchange rate of $1.50, Wood Mackenzie predict that oil tax revenues will peak at £12.7 bn in 1987/88. On the alternative assumption of stable sterling oil prices, the Institute of Fiscal Studies forecast that oil tax revenues will peak at £11.5 bn in 1986. These differences reveal just how significantly the size and timing of government oil revenues will be affected by the course of oil price movements in the next few years.

Latest figures indicate that in June 1983 there were 63,300 persons in employment in Scotland wholly associated with North Sea oil. 29% of these were involved in the extraction of oil and gas (including employment offshore), 38.5% were in manufacturing, 2.5% in permanent oil construction, and the remaining 30% in oil related services. Within manufacturing, the bulk of employment was in mechanical and marine engineering with a total of 23,000 persons. A geographical breakdown of wholly oil-related employment revealed a marked concentration in Grampian region which had 73% of the total (most offshore workers are registered as employed in Aberdeen). Strathclyde, Scotland's largest industrial region, had only 4.5% of wholly oil-related employment.

FOOD, DRINK TOBACCO

It appears that the recession in the Food, Drink and Tobacco sector is coming to an end. In the January CBI Survey, a rise in the volume of output over the past four months is reported by a balance of 17% of respondents in this sector. A smaller, but still positive, balance of 9% of respondents are more optimistic about the future than they were four months earlier. The reason is to be found in export markets where both orders and deliveries, on balance, increased in the past four months, although this upward trend is not expected to continue. So far as the domestic market is concerned, the order books of firms reveal mixed fortunes. In the meat sector, signs of healthy export market prospects, first noted in the August 1983 issue of the **Commentary** are continuing. Late last month expansion plans were announced by two meat processing companies based in Dundee and Bridge of Allan. As anticipated in the last issue of the **Commentary**, there has been no shortage of would-be buyers for the profitable divisions of Scotcros, notably whisky blending and animal feed, which lie in the food and drink sector.

Nearly half of all retail sales of milk in Scotland takes place through shops, and in Glasgow doorstep deliveries account for as little as 25% of sales. In England, by contrast, doorstep sales account for around 85% of the total. Many Scottish dairy companies feel that their profit margins

are under pressure, and feel themselves vulnerable to competition from the much larger and better organised dairy companies south of the border who are well-equipped to expand sales of packaged mil to supermarkets and other retail outlets in Scotland. Ironically, as doorstep deliveries of milk decline in Scotland, the Clydebank based brewery, Strathalbyn, has announced its intention to inaugurate home deliveries of beer.

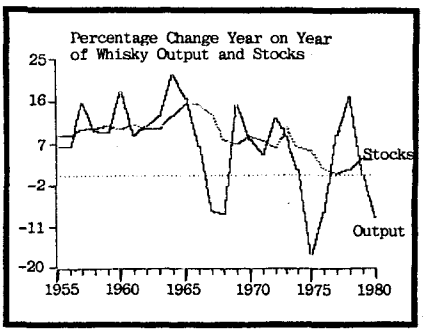
Scottish and Newcastle Brewers announced an increased turnover of 10% and increased profits of 40% in the six months to 30th October 1983. This was due in part to the warm summer weather, but also in part to the improved internal organisation of the company, coupled with the fact that they had anticipated correctly the increasing trend towards sales of canned beer at the expense of draught beer. It is a significant indicator of the high level of discretionary consumer spending throughout the recession that the company's eleven hotels in Scotland have also contributed strongly to profitability.

Finally, increases in profits and turnover of broadly similar proportions to those achieved by **Scottish and Newcastle** were reported by the manufacturers of Scotland's other national drink which benefitted not only from the hot weather in the summer, but also from a major advertising campaign in the North of England, as well as the installation of equipment to manufacture their own plastic containers as a means of keeping down costs of production.

WHISKY

It has become obvious in the last three months that the Scotch whisky industry is not yet over the recession. The depressed home market has not been counter-balanced by a continuation of the growth in export markets seen in 1982. Indeed, the reverse has been the case. While whisky exports were valued at £858m in 1983, volume fell by 9%, and was no higher than in 1974. The major cause of this fall-off in volume has been the heavy cutbacks in 'luxury' imports imposed by many developing countries with heavy debt burdens. Most significantly, the fifth biggest whisky importer in the world, Venezuela, has cut back imports by 45%. Other significant reductions have been made by Nigeria (62%), Algeria (65%), Mexico (89%) and Ecuador (75%). Exports were also down to markets without restrictions. Scotch consumption in the US in 1983 fell by 5% and shipments were down by 12%. Shipments to Japan were down by 8%. Encouragingly, though, the whisky industry's response to this decline in fortunes has been to adopt a more aggressive marketing strategy in foreign markets, particularly the US. Distillers Company Limited are negotiating a £214m takeover of Somerset Importers, a leading US spirit distributor, while Arthur Bell and Son have recently acquired the smaller Wellington Importers for £11.8m.

Industry analysts have in recent months ventured the opinion that the hoped for upturn in this sector will begin in 1984. However, Highland Distillers, in their annual report, are more pessimistic in suggesting that the upturn may not materialise until late 1985 at the earliest. If this latter prediction proves correct further contractions in both output and employment are likely in the coming year. Whether this will come in the form of 'going dark' (the industry's expression for the temporary shutdown of a distillery) or through permanent closures remains to be seen. One of the industry's problems is the gross misalignment of stocks and production. While output has actually fallen in some years, (1967-69, 1975-77 and 1981-82) stocks have grown in every year over the period 1955-80, albeit at a much slower rate in the last eight years. While stocks constitute an investment they



also tie up capital. It is obviously the case that, for the next few years, sales of whisky (both domestic and foreign) will have to outstrip production in order that a more normal stock/output ratio be re-established.

The stock-output ratio is unlikely to be favourably affected by any Budget increases in excise duty which must certainly dampen demand further. At the moment £4.56 out of the average price of £7 per bottle of whisky is paid in excise duty. At a time when the industry is emerging with difficulty from the worst recession in its history further setbacks in the domestic market, where sales fell by 5% in 1983, seem inadvisable.

DCL's interim pretax profit statement showed a fall from £80.2m to £64.9m (19%) on an increased turnover of £493.0m (up from £484.7m) in the six months to end September 1983. The main cause of this fall has been decreased sales in export markets which account for 90% of DCL's turnover. The company estimates that its end-of-year profit figure will be below £200m. DCL, which holds 36% of the world market, announced a 5% increase in non-UK prices in January. The company also re-launched Johnnie Walker Red Label onto the British market in November amid a blaze of publicity with £1m being spent on a pre-Christmas advertising campaign to promote the brand after its six year absence. Since DCL's share of the UK market has fallen from 50% in 1971 to under 20% at present, a Red Label market share akin to the 12% it held in its heyday would provide a welcome fillip to profits.

The Tobermory distillery, which shut down production in December 1980, it to re-open in April. It will re-employ 5 men laid off at that time and so bring its workforce back to a full complement of 8. The Ayrshire concern of Glen Catrine, employing 140 workers, is in dispute with the government over the proposed imposition of a minimum 40% by volume proof-strength for whisky as advocated by the Scotch Whisky Association. The lower strength UK blend manufacturers, of whom Glen Catrine is one and who currently hold about 5% of the market, wish the minimum proof strength set at 37.5%. This, they claim, would still serve the purpose of the 'strength-floor' i.e. greatly reduce the attractions of cheap foreign distillations which only have a strength of 20% alcohol by volume.

METAL MANUFACTURING

The prospects for metal manufacturing remain uncertain. On the production side recent events have reinforced doubts about the future of BSC's plant at Ravenscraig. At the end of December 1983 BSC formally announced the collapse of negotiations on the proposal to ship slab steel from Ravenscraig to US Steel's mill at Fairless in Pennsylvania. There consequently remains the problem of excess capacity in the UK and BSC cannot guarantee the long-term future of Ravenscraig. The option of "mothballing" rather than closing excess capacity appears not to

be acceptable to the EEC. The collapse of the UK steel deal disrupted the proposals on capacity reduction due to be submitted to the EEC in January. BSC is now expected to issue a new corporate strategy in April, against the background of the EEC's aim to close a strip-mill in the UK as well as in each other community member and having the power of approval over state aid to British Steel. Within the UK the problem is seen as a fight for survival between Ravenscraig and Llanwern, with some evidence suggesting that the latter is performing better in terms of productivity and profitability. Llanwern is also, of course, closer to the major markets for strip steel. The EEC took measures in December 1983 to restrict the developing price-cutting war among European producers by imposing minimum price limits and requiring producers to make cash deposits against shipments, the deposits of £8 per tonne being forfeited if minimum prices are breached.

In December 1983 British Alcan announced the closure of Bradley Laminates in Glenrothes with the loss of 17 jobs due to lack of demand. Butler International in Kirkcaldy was the object of a management buy-out, although the US parent retained an equity holding. The United Wire Group reported a continuing decline in the market for traditional rod and wire products but optimism about the markets for specialised products.

On the demand side, there is uncertainty in Scotland about the future of two relatively large metal-users; British Leyland's Trucks Division at Bathgate and Scott-Lithgow at Greenock. Any reduction in their overall levels of demand may affect Scottish producers both directly and indirectly. A fall in steel consumption, for example, adds to the problem of BSC's over capacity and, therefore, increases the threat to Ravenscraig. The decision by Britoil on 9 February 1984 to extend the deadline on negotiations over the future of Scott-Lithgow to permit offers from the UK subsidiary of the US Bechtel Corporation and the Howard-Doris/Gotaverken Arens Consortium as well as that from Trafalgar House indicate sufficient interest to ensure the continuation of activity at Scott-Lithgow. Thus, although it appears that reductions in the workforce are inescapable, demand for metal inputs may be maintained, at least in the short run

ENGINEERING AND ALLIED INDUSTRIES

Even allowing for the considerable diversity of firms embraced by this title, respondents to the January CBI survey expect little change in the general business situation over the next quarter. However, there is a considerable decline in the overall level of confidence about export prospects compared to the previous survey. Under-utilisation of capacity remains a problem, affecting over 60% of respondents, much the same level as in the previous quarter. The balance of firms expecting to make higher capital expenditure over the next twelve months remains low, which, given the existing degree of capacity under-utilisation, is not surprising.

The seemingly endless problems experienced by Terex continued over the last quarter. Ever since the parent holding company, IBH Holdings (West Germany), collapsed in November there has been a steady flow of redundancies from the Terex plant at Newhouse. A further 400 redundancies were announced by the receiver at the end of January. This latest trouble means that almost 1,100 workers have been made redundant in the last three months. The factory originally employed 1,500 people. At Polaroid (UK) in Alexandria, 92 redundancies were announced in January. This follows a fall-off in orders from both the Middle-East and Latin America. The redundancies will, it is hoped, be voluntary and will in the main affect female, part-time

employees. British Rail are to make 3,500 workers redundant from their engineering division. As part of this package 242 jobs at the Springburn depot in Glasgow, which currently employs 1,800,will disappear. The most recent redundancies bring to almost 500 the number of jobs lost at the depot over the past 18 months. Anderson Strathclyde, the Scottish mining engineering company which was taken over by Charter Consolidated in 1983, showed pre-tax losses of £1.8 million for the six months to September. The loss was, in the main, caused by a marked fall-off in orders for spare parts by the National Coal Board.

A number of new orders for a variety of Scottish engineering companies have brought some much needed hope to a beleaguered industry. A £2,500,000 investment by GTC Gas Turbine (Dundee) will double the size of its plant. It will also bring heavy industrial turbine work to Dundee for the first time, and lead to the employment of 90 additional staff. Two Aberdeen offshore engineering companies, Aberdeen Marine Oil Developments and Wood Group Engineering, are to share a substantial contract to supply engineering services to British Gas Corporation's Morecambe Gas field project. The companies will send engines and technicians to module fabrication yards throughout Britain. The Glacier Metal Company are to increase their Scottish interests by way of a £1,000,000 investment in an SDA built Glasgow factory. The company will install new plant and machinery and employ between 50 and 75 staff. Weir Pumps have won a contract to supply pumps and associated equipment worth £2,500,000 to MEI Pasons of Newcastle.

The continuing strength of the electronics sector was demonstrated by several developments in the last quarter. GL Ultrasound of Livingston, who make body-scanners, opened a £500,000 factory in January. The company was formed by G L Communications, one of Scotland's fastest growing electronics companies, and Scottish financial interests. The previous owner, Fischer Ultrasound, an American based company, collapsed. Fullarton Fabrications of Irvine, which makes computer components, is taking over a new plant at Ardeer in Ayrshire. In so doing it will double its workforce to 180. Further evidence of growth potential of the Scottish electronics industry came in mid-February with the announcement by Hewlett Packard that it is to create an additional 700 jobs at its South Queensferry factory in Edinburgh. The investment will be of the order of £10m and will increase the number employed in the factory to 1500 by 1987-88. The new jobs will be divided between the company's microwave operation and the telecommunications division. The expansion was triggered by a contract from British Telecom for equipment which will expedite fault-finding and repairs on private phone lines.

Finally, there was good news in January for the Irvine based Hyster fork-lift plant. Last February, workers at Hyster's factory in Holland objected to a British government £20m aid package to the Irvine facility intended to create 1,200 jobs over the next five years. However, the workforce at Hyster's Dutch plant complained to the EEC Commission that the aid breached Community regulations. The Commission have taken the view that the money will be used for training purposes only and not to underwrite workforce enlargement per se. However, it took into consideration the alarming unemployment level in the Irvine area - twice the national average. Hyster currently employ 650 at Irvine.

CHEMICALS AND PETROLEUM PRODUCTS

Although statistics for the final quarters have not yet been published the recovery in output experienced during the first half of 1983 was expected to be sustained according to the Department of Industry. This view was recently confirmed by industry experts who also forecast that output would rise further in 1984. A note of caution, however, was expressed that the perennial problem of over-capacity might again loom ominously in the next two years. This fear is fuelled by the fact that, while Western Europe, America and Japan have curtailed capacity by widespread rationalisation over the last two years, large capital investments have been undertaken in the Middle East where a programme of petrochemical plant construction is nearing completion. By 1985 Saudi Arabia alone is expected to have capacity equal to 5% of total world production. It is possible that the Scottish petrochemical industry, dominated by Grangemouth and the nearly-completed Moss Morran plants, will be less severely hit than other European industries because of the indigenous supply of crude oil. Grangemouth has benefitted from BP's rationalisation of its UK activities in the past with jobs being transferred from South Wales to the Central Region plant.

At the Royal Ordnance Factory in Bishopton there are fears that the 2,200 workforce fear either employment reductions or loss of pension rights when the government`s plans for privatisation go ahead. Ministers` attempts to placate the labour force in the Ordnance Factories (which last year reported a combined surplus of $70 m) have so far been unsuccessful.

One Scottish firm in another part of the chemical industry, Klinge Chemicals at East Kilbride, have achieved a successful launch of their salt-substitute LOSALT, which contains 65% less sodium chloride, on the Scottish market. The product is now about to be introduced in England where the company has high hopes of repeating its success. Since its launch in 1978 with 6 employees, the firm has grown to its current employment level of 60.

The paint and wallpaper manufacturer, Craig and Rose of Edinburgh, announced an 11.5% increase in interim after tax profits over the year to 30 June 1983. According to the company management much will depend on the effects of the cutbacks in the government`s home improvement grant scheme as to whether these profits will be maintained in future. The fertiliser manufacturers SAI announced an increase of 30% in pre tax profits during 1983 despite largely unchanged output.

COAL

Amid claim and counter-claim as to the costs and effects of the NUM`s national overtime ban there appears to be little prospect of it being brought to an end. In the meantime the future of Scotland`s remaining coal mines becomes more and more uncertain. Already the coal board have announced the closure of two more pits, Polmaise near Stirling and Bogside in Fife. The NCB claim that both pits have been irretrievably damaged by flooding and gas build-ups caused by the withdrawal of emergency cover during the overtime ban. In the case of Polmaise, a development pit, geological faults and "the lack of a market" were also cited. The NUM, on the other hand, claim that the board are using the overtime ban as an excuse to continue their strategy of extensive pit closures. No compulsory redundancies have been announced over these two closures. Early retirement and attractive voluntary redundancy packages have been offered to men over 50. The balance of the workforce have largely been deployed elsewhere with

700 of the Bogside men and 250 Polmaise men being transferred to pits in the Longannet complex. 150 men remain at Bogside to carry out salvage work.

	Number of collieries		Wage Earners on Colliery Books as at 31 March	
	Scotland	GB	Scotland	GB
			(000s)	
1975-6	21	241	23.6	243.7
1976-7	20	238	22.9	242.1
1977-8	19	231	21.9	239.3
1978-9	16	223	21.0	232.4
1979-80	16	219	21.0	233.2
1980-81	15	211	19.8	224.8
1981-82	14	200	17.4	212.8
Now (approx.)	10	180	14.0	170.0

Source: NCB Accounts and Report (various years)

These most recent closures bring the number of coal mines in operation in Scotland to a new low of just ten employing around 14,000 men. As the table shows, over the last decade there has been a much more marked decline in the number of pits and coal mining employees in Scotland than in Britain as whole. Without future investment in coal burning power stations these numbers are likely to fall even further. Four other Scottish pits in danger of closure because of flooding are Killoch and Barony in Ayrshire, Monktonhall, where development work restarted in December after a "marked improvement" in productivity, and Frances in Fife. In the event of closure the 4,000 men employed in these pits could not possibly all be redistributed elsewhere.

The chairman of the NCB, Mr Ian McGregor, remains firm that decision making, including pay negotiations will be devolved to the area level and that profitability will be the future criterion applied in the industry. This strategy would seem to imply further Scottish closures since four of Scotland's remaining pits, Killoch (1750 men), Seafield (1600 men), Castlehill (1000 men) and Solsgirth (1750 men) are amongst the thirty leading loss-making mines.

SHIPBUILDING AND VEHICLES

Since the last Commentary appeared the worst fears expressed therein have been realised. The crisis at Scott-Lithgow on the lower Clyde has been well-documented and closely followed by all parts of the media. Perhaps the most interesting feature highlighted by the coverage has been the lack of consistency in comments coming from the various parties concerned. However, the essense of the situation is that Britoil have cancelled their £89m rig order, British Shipbuilders have announced 3,000 redundancies by March and 3 private companies have expressed an interest in taking over part or all of the yard's commitments. BP, for whom the yard is presently completing another rig, are also seeking to negotiate contract terms in the light of repeated delivery delays.

Consider these events in turn. Britoil, after commissioning an independent consultant`s report were not satisfied that the rig order could be completed by the specified `drop-dead` delivery date. They were willing to renegotiate the order with due emphasis on the penalty payments BS would incur for late delivery. Neither BS themselves, nor the government, would entertain this option. Consequently, Britoil in mid-January carried through their threatened cancellation of the contract. One month later, British Shipbuilders announced the timescale for the rundown of the labour force; 800 immediate redundancies with a further 2,200 workers to go by late February. This will leave around 1,000 men to complete the BP rig by April, though there is some doubt whether this is practicable with BP not excluding the possibility of cancellation if the April delivery date is not met.

Despite the views expressed publicly by BS and government officials, the private sector declared almost immediate interest in taking over the Scott-Lithgow yard and completing the Britoil contract. The government, at this point, offered to `wipe the slate clean` and so clear the way for a sell-off to the Trafalgar House group, although the American Bechtel Corporation and Howard-Doris have also emerged as bidders. Even if a private take-over is successful there is little doubt that at least half of Scott-Lithgow`s workforce will go in the next few months. This will be a devastating blow to the communities of Port Glasgow and Greenock.

There is no doubt that Scott-Lithgow is at the frontier of an entirely new type of industry - deep-water offshore construction, which is likely to grow as the search for new oil fields intensifies. As part of British Shipbuilders offshore section it appears to have been starved of guidance about the techniques and methods required to construct oil rigs. For an industry involved in such high technology, and the complex nature of the Britoil rig was the prime example of this, it seems strange that BS did not invest in computer aided design facilities at Scott-Lithgow, facilities which most front runners in British industry already have, although these have been promised to the other yard in the offshore division - Cammell-Laird at Birkenhead. A change of attitudes both within and towards the workforce and management at Scott-Lithgow will be a necessary concomitant to the yard`s future success. New management is undoubtedly the only way this can be achieved. The ineptitude of British Shipbuilders to manage has been too amply demonstrated to argue otherwise.

With less of a fuss than the Scott-Lithgow affair, the Henry Robb shipyard at Leith is to close by the end of April. The 390 men had been relying on an order from the Ministry of Defence to ensure their future but the £28 m contract for three multi-purpose vessels eventually went to east coast rivals Hall-Russell in Aberdeen thus guaranteeing their 800 strong workforce employment for the next two years.

An example of successful privatisation in the shipbuilding industry has been the take-over by three of its existing directors of the Grangemouth Dockyard Company following the closure of the ship repair yard in October with the loss of 96 jobs. The new company employ a workforce of 25 but it is hoped to increase this to 50 in the near future.

BL have made an about-turn on their reassurances to the Bathgate and Albion plants` workforces. In the last **Commentary** it was reported that fears about the future of the Scottish operations had been allayed. This now appears to have been premature as BL announced in January the witholding of capital

investment previously promised for the Bathgate plant. At the same time they announced that independent analysts had suggested cutting truck building capacity to around half present levels. If this recommendation is accepted the future looks bleak for Bathgate as BLs modernised plant in Lancashire could easily handle this level of output. For the Albion axle plant events took a worse turn when 500 redundancies were announced a few days later. The future of both these operations should be known within the next two months although, at the moment, further rationalisation would seem inevitable.

TEXTILES, LEATHER & CLOTHING

There is at present a boom in retail sales of clothing and the evidence points to a turnaround in the fortunes of the industry as a whole in Scotland around the 2nd or 3rd quarter of last year. This means that the recession in the industry, measured by the decline in the Index of Industrial Production, lasted almost exactly four years, from the 2nd quarter of 1979.

During those four years a number of well-established firms succumbed, including such household names as **Antartex** and **Romanes & Paterson**, the latter having been established for almost two hundred years in Edinburgh. It is interesting to notice distinct patterns of behaviour amongst the survivors and the deceased. Those companies which have survived have done so by reorganisation, whether it be of management, or by introducing new technology to lower their costs of production, or by adopting new product lines or all three. A classic example of adaptation in the face of adversity is that of the long-established firm of **Poetic Knitwear**, who have identified a market in casual knitwear fashioned in football team colours. It has thus won a £2.5m contract already, and is contemplating a similar exercise in Europe once it has secured the home market.

Dawson International, the major knitwear group, reported that their sales rose 10-12% in volume terms in the six months to September 1983. Most of this growth was in the home market, but there were signs that export markets were picking up strongly towards the end of this period, and they reported that order books were "full to bursting".

Confidence amongst respondents to the CBI Survey of the textile sector in Scotland, which has been notable since last April, still continues to strengthen. In the most recent survey, a balance of 59% of respondents were more optimistic about general business prospects than four months previously. A balance of no less than 72% viewed export prospects more optimistically. It is interesting to note that, while the increase in new export orders which had been anticipated in last October's CBI Survey does not seem to have materialised in the four months to January, this does not appear to have in any way dampened the expectations of respondents. Indeed, out of a sample of 42, none expect a fall in either domestic or export orders over the coming four months. Expectations concerning the volume of output have therefore improved correspondingly.

PAPER, PRINTING AND PUBLISHING

News of the mixed fortunes of firms in these sectors continues to filter through. In the paper sector G-P Inveresk have announced the closure of four of their paper mills in the near future. Although details of the closures and the number of job losses are not yet known it is almost certain that the Woodhall paperboard mill and the finishing operations at Lochmill in Scotland will

close. GB Papers, based near Leuchars in Fife, have announced an agreed takeover by the US firm James Rivers. GB, who employ 530 managed to transform 1982 losses of £133,000 into a pre-tax profit of £544,000 during 1983.

Whilst the paper sector continues with long term rationalisation there is a degree of optimism detectable in both packaging and printing. Towards the end of 1983 the packaging industry throughout the UK managed a strong recovery with sales 7% higher than in 1982. In Scotland these trends are confirmed by significantly higher orders since the start of the year. The small Scottish industry remains highly competitive but with some plants continuing to make losses further closures in the next year or so cannot be ruled out. Most of the divisions within Scotcros have now been sold by the receiver. The packaging division, which was the main cause of Scotcros' problems, is reportedly close to a takeover agreement with a US firm.

Over the past few years the printing industry in both Scotland and the rest of the UK faced strong competition, especially in book printing, from other countries. Now there are signs of a revival based on a much depleted industry comprising firms geared to meet future demands. At present most firms are operating at less than full capacity but are also in the process of investing in new technology. In Scotland the industry is now showing its first signs of recovery since the closure of Morrison & Gibb in Edinburgh and Maclehose in Glasgow during 1982. The clearout of the industry has made surviving firms more aware of their strengths and weaknesses and as a result has ensured a mugh more effective industry. The merger between Edinburgh printers Pillans & Wilson and William Blackwood & Son has created a company intent on expanding its range of specialist services, especially those to financial institutions. The industry is also starting to attract the interest of venture capitalists. Blantyre Printing for example have recently announced an injection of £100,000 (in return for a 35% stake) plus extra funding in the shape of £35,000 loan capital. In 1982/83 turnover in Blantyre Printing was around £1m but is forecast to reach £2.2m in the current year.

COMPANY FORMATIONS AND DISSOLUTIONS

The number of companies incorporated in the fourth quarter of 1983 in Scotland was 1,248 bringing the total for the year to 4,722. This is the largest number recorded for any year since incorporations were first reported in the **Commentary** in 1977. The number of companies dissolved in the third quarter was 546 bringing the yearly total to 1,681, a total only exceeded by that of 1982. If formations and dissolutions are viewed as fluctuating around an upward trend, these latest data suggest a slight improvement in business conditions in Scotland.

The Service Sector

THE FINANCIAL SECTOR

There is little disputing the important role that the financial sector plays in the Scottish economy. Doubts however are expressed at frequent intervals about the apparent demise, notably by takeover, of Scottish-based financial institutions and the consequent effect on the regional economy. This, the first of a regular series of contributions on the financial sector, explores and puts into perspective some of these concerns. It examines the extent of the Scottish financial system and considers some of the problems and issues involved.

A forthcoming article by Andrew Bain and Richard Reid* provides a picture of the current state of the Scottish financial sector. In 1981, Banking, Finance and Insurance accounted for a little under 7% of Scotland's GNP and employed some 80,000 people accounting for more than 4% of total employment. This compares with a corresponding UK figure of some 5.9% of total employment. The clearing banks and other deposit taking institutions such as the Trustee Savings Bank, merchant banks, building societies and National Savings Bank are the major employers. Investment institutions, most notably life assurance offices and investment trusts, account for a significant proportion of the rest. In general insurance Scotland is primarily represented by General Accident which is a major employer in Perth. Stockbroking and long term financing institutions such as the ICFC and merchant bank subsidiaries together with venture capital groups also contribute to overall employment.

Besides acting as employers, the financial institutions have an important role to play in facilitating the transfer of funds between borrowers, primarily companies with an excess of investment opportunities, and savers, often individuals with a surplus of savings. This process of intermediation takes place in a banking sector which as a result of the restructuring of the Trustee Savings Bank and its emergence as a clearing bank has seen increasing competition in recent years. The TSB's attempts to reverse its declining market share in retail banking and the change in the composition of its assets brought about by its increased lending pose a substantial threat to the established clearers. At the other end of the market the emergence of Adam & Co reverses the long-established trend to larger banking units. The new bank aims to provide specialist services to a limited number of high income clients. Although the success of this venture is by no means assured, it represents an important challenge to the major banks.

The prevailing view in recent years has been that increasing automation in banking requires large units able to bear the not inconsiderable development and capital costs. Adam & Co directly challenge this philosophy. It represents an attempt, by offering a higher standard of service geared more closely to the needs of its clients, to cream off the more lucrative banking

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* A D Bain and R D G Reid (1984) The Finance Sector in Hood, N (ed) **Industry, Policy and the Scottish Economy.** Edinburgh University Press (forthcoming)

business associated with higher income earners. Although the demand for more comprehensive bank services by some clients cannot be doubted, it is an open question whether a private bank of this type can succeed. Bank clients take for granted a considerable degree of automation - automatic cash dispensers, for example, dispersed over a wide geographical area greatly reduce the inconvenience that banking hours and fixed geographical location impose on their customers. It is to be doubted whether small banks can provide such services to their customers and this must restrict their ability to secure an adequate customer base. "Up market" personalised banks would seem to have more of a place within the existing big banks as an additional service. If Adam & Co succeed it will be surprising if a number of such "banks" do not emerge from within the existing branch banking network.

Competition for personal savings has also come from the building societies. Their four-fold increase in the number of branches and six-fold increase in deposits over the period 1971-1981 represents a considerably faster rate of growth than the clearers achieved. Figures provided by Bain and Reid suggest that the rate of growth slowed considerably in the latter half of the period. It is of interest to consider whether the expansion phase of the societies is now at an end. The continued low level of home ownership in Scotland suggests that demand from new borrowers for home loans could remain strong for many years although the relatively depressed state of the Scottish economy will act as a continuing constraint. Apart from providing funds for Scottish housing the societies also channel funds to English buyers. With the exception of the Dunfermline Building Society, no sizeable Scottish societies exist, so that even with a depressed level of Scottish loan demand building society deposits in Scotland could continue at a high level.

However, it is unlikely that the banks would sit idly by if the societies continue to gain market share at their expense. The banks have demonstrated their ability to compete in the housing market and the threat of further competition of this kind must act as an important consideration when the societies determine their rates. A more attractive option than open competition must be some form of co-operation. This is best exemplified by the joint scheme recently introduced by the Alliance Building Society and the Bank of Scotland. The scheme pays interest at building society rates whilst at the same time offering the facilities of a bank current account. An important characteristic of this scheme is the manner in which funds are automatically transferred from the building society when the bank account falls below a minimum level. Although the scheme is at the moment unique in providing this facility there are a number of other schemes linking banks and building societies and the trend seems far from exhausted. The scheme may presage the emergence of "financial supermarkets" which aim to satisfy a wide range of investors needs. In due course more formal arrangements, possibly even mergers, may evolve although this will depend in large part on the tax and legislative environment. Trends of this type are of considerable interest. The competition of recent years in the housing market was beneficial to the borrower. The new arrangements may be less desirable although it is as yet too early to tell. A careful balancing of the interests of the mortgage payer against those of the depositor is called for. One aspect of this process of particular concern for Scotland is the almost total absence of domestic building societies. If a major new breed of financial intermediary begins to evolve the Scottish banks will be forced to link up with societies based in other parts of the UK. In so far as a society operates extensively in Scotland there may be little grounds for concern but there could be situations where such a link up would be to the detriment of Scottish interests.

The clearing banks are also involved in other parts of the banking sector. The major merchant bank in Scotland, the British Linen Bank, is itself a subsidiary of the Bank of Scotland. Increased competition in this area is to be expected from the Royal Bank as its corporate finance division becomes increasingly active. The independent merchant banks, Noble Grossart, James Findlay and McNeill Pearson are very much smaller and although active in Providing corporate advice are not a great threat to the position of the clearers in this sector of the market. Of much greater interest is the competition posed by the 30 or so English and foreign banks. Drawn originally in part by North Sea oil operations there must be some doubt, with the maturing of the oil business in Scotland and the decline in the industrial sector, whether enough business is available to support the continued operation of all the banks relying predominantly on corporate clients. While the non-Scottish-based banks do not have the advantage of a branch network to bring them into contact with potential clients they can frequently offer international services with which the domestic banks find it hard to compete.

Outside of the banking sector the other major Scottish financial involvement is in investing institutions. Scottish life assurance institutions represent a substantial proportion of total UK assets and income. According to Bain and Reid some 80-85% of the Scottish institutions' business is done in England and Wales with the balance in Scotland. Between 1971 and 1981 their share of total UK funds at book value rose by about 1% although there was considerable variation between offices. The expenses ratio for Scottish societies was also very favourable and it is likely that on average this will be reflected in superior performance. Indeed this appears to have been the pattern in the past and given the continuing low expenses ratio may be expected to be repeated in the future. The industry has moved gradually into unit linked policies so that all of the offices now offer or plan to offer such products in the near future. Pension business has also been a substantial growth area for the companies as well as for other investment houses. A number of partnerships and other agencies have moved successfully into this fast-growing part of the market and carved out a substantial volume of business. The long term prospects for such business however are not entirely predictable. Any change, as is frequently discussed, in the favoured tax position of pension contributions could significantly reduce the supply of funds for investment. Indeed any significant tax changes that attempt to remove some of the present distortions of the savings market could have a measurable impact on Scottish financial intermediaries. A move by the Government to encourage individuals to invest in the market directly would reduce the attraction of the institutions to the personal sector. It is unlikely that investment performance, if no longer bolstered by favourable tax treatment, would on average be significantly, indeed if at all, better than most individuals could achieve themselves.

The other major investing institutions represented in Scotland, that might be affected by any such legislative changes, are the investment trusts.* The trusts have already experienced some predatory activity as a result of the difference between their asset values and their market price and it is unlikely that the takeover threat has ended. This is not necessarily of great importance to the Scottish financial system. By no means all trusts are under threat and in any event other more flexible investment bodies may emerge. Nonetheless a number of trusts have shown a considerable capacity to innovate. Objectives have been more clearly defined and new specialist trusts launched. Some trusts also play an important role in providing local

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* See Feature Article below

industry with high risk capital encouraging entrepreneurial activity. The long term nature of the trusts favours investment of this type and it might be difficult to replace such funding by other sources.

Innovation in raising funds have also taken place. For example, Scottish Mortgage issued a debenture with a stepped interest rate. Interest starts at 8%, then rises by one percent a year until it reaches 14%. The debenture eases the burden of interest payments in early years at the expense of later payments. There may be some advantages in this type of loan if the trust is predominantly investing in growth stocks with very low initial yields. A cost of such an issue however is the delaying of tax benefits from the debenture. Lower interest payments imply smaller tax shields and hence smaller after tax profits now and large tax shields and after tax profits in the future. The shareholder loses the benefit of this difference in tax shields for the early years of the loan. At any positive rate of interest this represents a real cost to the shareholder. The development of new financing instruments is to be applauded but it is to be hoped that any issuing company has a clear idea of the advantages and that these are not based on some hoped-for mispricing of the asset in question on the market. The empirical evidence does not support such consistent mispricing.

Significant contraction of the investment trust sector as a result of outside predators might have important consequences for some Scottish stockbrokers although the effect would be mitigated by the existing tendency of the institutions to deal directly with London. The effect is also reduced by the tendency of some trusts under threat to unitise their portfolios. Although this reduces the size of the investment trust sector it results in a gain in the faster growing Unit Trust sector. It is a matter of some concern that the investment trusts are so heavily represented in Scotland whilst Unit Trust management is of little consequence. The relative decline in the one has not been matched by a growth in the other.

Apart from any possible decline in investment trust business the stockbrokers currently face a rapidly changing situation. The phasing out of minimum commissions and the widening of stock exchange membership together with the possibility of an end to the current division between jobbers and brokers represent substantial changes that may bear particularly hard on the smaller firms. At the same time there have been a number of transactions in which outsiders have bought into stockbrokers. The talks between Exco and Wood Mackenzie came to nothing but clearly indicate the desire of some firms to incorporate broking in the range of financial services they offer. Such moves seem likely to accelerate the trend to larger stockbrokers that has been in evidence for a number of years. The emergence of multi-service companies able to support substantial research activity and salesmen can be expected to dominate the institutional market. One organisation will be able to advise on a wide range of different investments available on both the domestic and international stockmarkets as well as on a range of other investment activities. Specialisation or personal service may save some of the smaller brokers although with declining direct investment by the personal sector and the lack of resources of these brokers as a consequence of their size, the outlook is not bright. Even with tax changes favouring direct investment the advantages would lie with the bigger brokers and their ability to offer a full range of financial services and support expensive advertising.

General Accident represents the only significant general insurance company based in Scotland and accounts for some 7% of total UK premium income. 40%

of its net premium income emanated from the UK, the rest arising from its overseas operations. Its share of world wide premium income accruing to the UK rose over the 1970's but its share of the home market may have fallen slightly.

A variety of other financial institutions flourish in the Scottish market. Most like the ICFC are involved in filling gaps in the capital market. Considerable help is available for smaller ventures. It is probable that it is in this area that the advantages of Scottish based insitutions are most clearly felt. Small risky companies often require not just a capital injection but help in deciding on an appropriate management structure. They may also require specialist advice. Resident Scottish institutions are better placed to help these smaller companies than their London counterparts. Geographical proximity may be an important factor in cutting costs and persuading institutional investors that the often considerable managerial effort required is worthwhile. The number of very profitable propositions that would be lost without these local institutions would probably be small but there might be a considerable loss of the slower growing but still profitable projects. It is unlikely to be in the long-run interest of the economy for any institution wherever based to invest in low profitability enterprises. The contribution of local institutions must be through their local knowedge and expertise to make the raising of capital easier and cheaper for local industry and services.

CENTRAL AND LOCAL GOVERNMENT

THE SCOTTISH RATE SUPPORT GRANT SETTLEMENT

Ten years ago, the Secretary of State's annual announcement of the Rate Support Grant settlement received little attention. Now, after five years of deepening conflict between central and local government, the importance of the settlement is more widely understood, both for the services local governments provides, and for the rates which will be levied by March 1984.

The settlement follows a series of meetings of the Working Party on Local Government Finance, comprising representatives of the Scottish Office and the Convention of Scottish Local Authorities and chaired by the Secretary of State for Scotland. The negotiations are concerned with local government expenditure net of income from charges, that is, the public expenditure component. There are, therefore, three key decisions the Secretary of State makes: the level of relevant expenditure (i.e. expenditure on which the grant is payable), the level of grant payable (i.e the government's share), and the formula by which the grant will be distributed.

Relevant Expenditure 1984-85

The total of relevant expenditure for 1984-85 is £3,205.9m. Of this, £216.8m (11%) is in the form of specific grants (i.e. Police, Urban Programme Expenditure). In the past, this figure was stated in real terms, and known as Volume Expenditure in the Public Expenditure Survey, and a separate forecast was made for pay and price increases. The two figures were then added and the final figure became the Cash Limit. Now, however, the figures are presented in cash terms, which makes it more difficult to

assess the government's intentions for the volume of services. The total shows an increase of 2.9% on last year, and £70m over the provisional figures in last year's Public Expenditure White Paper. The latter increase may be interpreted as a recognition that local expenditure is going to be higher than the government hoped. Overall, with an allowance of 5% for inflation (the Treasury estimate), the settlement implies a cut of around 2% on last year's settlement. However, local authorities are already spending marginally above the government's target. If last year's local authority budgets are rolled forward, then assuming a 5% inflation rate, local budgets would require to be reduced by nearly 5% to reach the government's targets.

The Level of Grant

The second key decision is the level of government grant. For 1984-85, this has been fixed at £1,930m, or 60.2% of relevant expenditure. This decision changes the balance of funding further towards local and away from central taxation. What is at issue here is not the **size** of the cake, but the shares met respectively by central and local government. On average, rates will be 3% higher than they would have been had the level of grant remained at 61.7% as last year. Indeed, the erosion of government support has been a consistent feature of rate support grant settlements in recent years. The extent of that erosion since 1981-2 is marked.

CENTRAL GOVERNMENT SHARE OF RELEVANT EXPENDITURE

Year	Level of Grant	Grant Percentage
1981-2	1,639.8	66.7%
1982-3	1,860.3	64.2%
1983-4	1,924.3	61.7%
1984-5	1,930.0	60.2%

Source: COSLA - RSG and HSG Scotland (1984-5)

In 1984-5, had the grant percentage remained at the 1981-82 level, then £208m additional grant would have been available to local authorities. This is equivalent to a 17p average reduction in local rates.

The Distribution of Grant

This year's settlement is also significant because of the introduction of a new method of assessing relative need for the purposes of grant distribution. The previous demographic approach was a simple formula based mainly on the total population of each local authority (about 80% of the assessment) taking into account other factors such as numbers of children, elderly, and social conditions such as sparsity, density, and acute population decline. This method was entirely judgemental. Whilst the factors listed do clearly have some influence on local need, they are by no means comprehensive and there is no causal model to provide justification for the relative weight attributed to each factor.

The new method is know as the Client Group Approach and the main change is the move from a composite to a disaggregated measure of spending need, which allows the relevance of factors to be judged in relation to specific services. It assumes that the number of clients for a service is the major determinant of expenditure need for that service. Allowances are also made on the grounds of statistically validated average costs of service provision. Whilst COSLA asked for the introduction of the method to be delayed, in fact councils are heavily divided, mainly on grounds of winners and losers. Further changes in the formula are likely following an extensive review of alternative factors this year.

The strict application of the Client Group formula as it stands at present would have significant implications in terms of grant loss for some councils. An arrangement has been made to cushion the effect of such changes, by limiting the grant loss as follows:

(1) To £6.46 per head (equivalent to a 2.5p rate) for regional councils.

(2) To £2.58 per head (equivalent to a 1p rate) for district councils.

(3) In addition, grant payable to authorities who gain from the change will be the amount as initially estimated for 1983-4, enhanced by a per capita share; £1 per head for Regions, 9p per head for Districts.

In the present year, Strathclyde, Lothian and Highland Regions will incur considerable loss of grant.

Implications

It is ironic that, at a time when council spending is closer to government targets than at any time for the past four years, when local authority manpower levels have consistently fallen since 1982, and when the conditions for low levels of rate increases are better than at any time since 1979, with lower inflation and interest rates, the government should be seeking new powers to control local spending in the Rating and Valuation Bill. The likely low level of rates increases, however, will have little to do with the government's specific decisions in the Rate Support Grant settlement. The research evidence shows clearly that when government cuts grants, local government as a whole responds by a combination of cuts in expenditure and increases in rates.

RATE SUPPORT GRANT 1984-85

Description	£m cash	% of relevant expenditure	% of Grant
Relevant expenditure	£3205.9m	-	-
Special Grants	216.8m	6.8	11.2
RSG			
Domestic element	14.3	0.4	0.8
Needs element	1486.5	46.4	77.0
Resources element	212.4	6.6	11.0
Total	1930.0	60.2	100

The total of current expenditure is £2753.0m. There is an unallocated amount of £75m, which the government argue is necessary to allow some local authorities more time to adjust their spending to the government's targets.

RELEVANT EXPENDITURE SUMMARY

	Services	£m cash
1.	Education	1249.1
2.	Libraries and Museums	41.2
3.	Social work	293.0
4.	Law, Order and Protective services	333.3
5.	Roads and Lighting	165.3
6.	Transport and Concessionary Fares	88.4
7.	Water Sewerage and other Environmental services	212.3
8.	Planning	11.3
9.	Leisure and recreation	76.5
10.	Central Administration	114.4
11.	Urban Programme	19.9
12.	Miscellaneous	80.3
13.	Interest on balances	(7.0)
	Total	£2678.0

The figures attributed to services in Table 3 are entirely hypothetical. In practice, local authorities are free to determine their own pattern of expenditure, so variations from the settlement provisions will occur.

Housing Support Grant 1984-85

Housing expenditure is subject to a separate system in Scotland. Housing Support Grant is similar to Rate Support Grant and is a block grant payable to councils for eligible expenditure. Unlike other services, however, housing has considerable potential to raise income through council house rents. The past few years have seen a dramatic decrease in the level of housing support grant and considerable increases in the level of council house rents.

HOUSING SUPPORT GRANT

Year	£m cash
1979-80	213.4
1980-81	228.2
1981-82	161.9
1982-83	134.4
1983-84	72.1
1984-85	52.5

Source: COSLA - RSG and HSG 1984-5

58% of council housing stock no longer receive any housing support grant. Whereas in 1979-80, rents accounted for 47% of revenue expenditure by 1983-84 this had risen to 71%. However, just as with cuts in Rate Support Grant, councils are unwilling to pass on **all** cuts in grant in rent increases. Rather, such cuts are met by an increased contributon from both rents and **rates.** The Housing Expenditure Limit System links decisions on revenue expenditure to capital expenditure. Any excess over goverment plans for rateborne expenditure on housing is eliminated by reducing capital allocations. This year's HSG settlement will continue the trends or recent years - higher rents, higher rates, and lower capital expenditure.

DISTRIBUTIVE TRADES

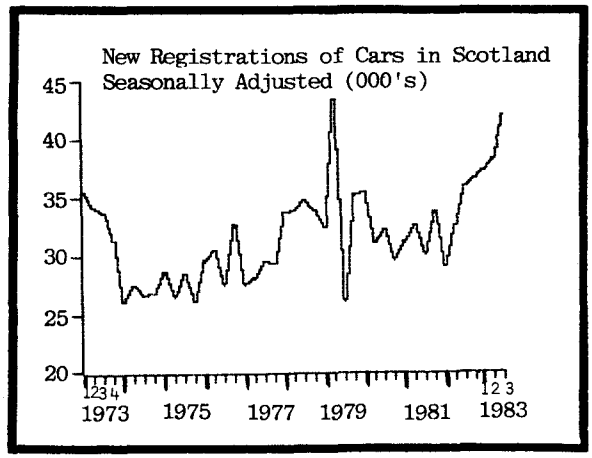
Retail sales in the UK are provisionally estimated to have been 5.5% higher in volume terms during 1983 than in 1982. As expected, the level of sales climbed rapidly towards Christmas and the retail sales volume index reached a provisional high of 119.4 (1978 = 100) in December. According to the latest CBI/FT survey, 74% of retailers expected January 1984 sales to be higher than in January 1983 and only 7% expected a decline. Early indications from January sales in a number of major stores (Rumblelows, Harrods, John Lewis) suggest this optimism may have been justified. Though separate figures are not available for Scotland, there is no reason to believe that Scottish shops have not participated in the sales boom.

Reflecting optimism in market prospects north of the Border, Rumblelows' announced a £3 million expansion plan for Scotland in December. The first store has already opened in Clydebank and eventually the electrical/TV hire chain hope to have 35 shops in Scotland with a turnover of some £25 million. However, an indication that not all shops have prospered recently was given in November when Sir Hugh Fraser announced the closure of his Sir Hugh store in Glasgow. 20 persons were employed in the shop, some of whom will be re-employed in other Sir Hugh outlets.

A new **wholesale** food centre has been opened by Castle in Glasgow. The centre is the largest of its type in Europe and is designed to service small independent retailers. Castle predict a £75 million turnover in their first year of trading. Generally, wholesale trade appears to be enjoying the same type of buoyant sales levels as retailing, reflecting high purchases by industry. The CBI/FT survey indicated that a net 70% of wholesale

respondents enjoyed a higher level of sales in October 1983 than in October 1982. Furthermore a net 61% expected this healthy sales trend to continue.

In contrast to other distributive trades, **motor trades** sales were sluggish during the latter part of 1983. Of the CBI/FT survey respondents, a net 23% reported a fall in sales volume in October 1983 compared with October 1982. A net 8% expected falls in sales in the last two months of 1983. A major reason for the poor winter perfomance in the motor trades was the unusually high concentration of vehicle purchases in August 1983, when a net 83% of CBI respondents realised a higher sales volume than in August 1982.



New car registrations in Scotland in the third quarter of 1983 were 41.7 thousand, an increase of approximately 16.5% on the figure for the same quarter in 1982 and only 3.5% below the previous highest total of 43.2 thousand recorded in the second quarter of 1979. Although the upward trend evident since the beginning of 1982 is an encouraging indicator of economic activity, the latest figure obviously reflects the attraction of the new "A" registration introduced in August 1983.

Company registrations accounted for approximately 22% of all Scottish car registrations in that month compared to 44% in December 1983. In Great Britain as a whole, company car registrations were around 31% of all new car registrations in August 1983 and 51% in December 1983.

TRANSPORT AND COMMUNICATIONS

The last quarter brought mixed news for the Scottish transport network. In December, Strathclyde Regional Council (SRC) outlined ambitious capital expenditure plans for its supported rail network, 42% of the Scottish total. Under the 1968 Transport Act, the Council have an obligation, through the Strathclyde Passenger Transport Executive (SPTE), to co-ordinate public transport within the SPTE designated area. Section 20 of this Act allows a Passenger Transport Executive (PTE) to provide revenue support for passenger services in return for the right to determine fares and the volume of service. Under Section 10 (ii), the Region has the power to grant subsidies on journeys up to 25 miles outside the PTE area. Thus passengers travelling between places such as Ayr, Greenock, East Kilbride and Lanark receive generous support from Strathclyde ratepayers.

The problem facing SRC is the escalating cost of the S20 payment. The payment itself is essentially the difference between the costs borne by BR in providing the supported services and the revenue received given the PTE determined fares structure. Between 1976/77 and 1982/83 costs have tended

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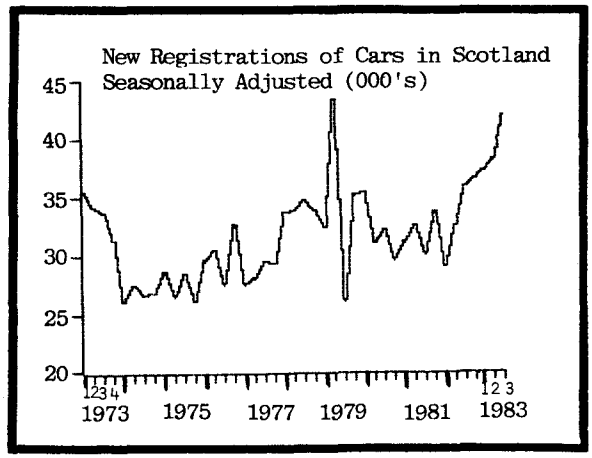

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to grow whilst revenue has declined and the S20 transfer for 1982/83 amounted to £27.2m. While the effects of the 1982 rail strike distort the current position, it appears that over 50% of the cost of supported services is being met by subsidies from the Regional Council at a time when the Scottish Secretary is scrutinising local authority expenditure and possesses a disturbing array of powers to discipline high spenders. The rail subsidy is competing for funds from declining SRC budgets with social work, education and industrial initiatives.

The new capital programme is designed to contain and reduce the revenue subsidy paid to BR in the medium term. The plan seeks to increase revenue by providing a higher quality service and to reduce costs through rationalisation and increased labour productivity. It is assumed that there will be an increase in revenue as passengers substitute rail travel for other transport modes. The present fare structure is to be maintained and the level of fares held constant in real terms. It is proposed to electrify the routes to East Kilbride and Cumbernauld and to extend the existing Ayrshire scheme from Ardrossan to Largs. The net result of new and existing SRC plans will be to increase to one third the proportion of the Scottish rail network electrified compared to 14% in 1982. In addition, increased services on the Glasgow-Barrhead-Kilmarnock line will be made posible by investment in new diesel multiple units. A total of five stations are to be opened or re-opened while nine are to be closed.

Cost savings are projected from improved working practices, single tracking and signal modernisation. At present, rail union leaders appear to appreciate the need for economies. However, there has been rank and file opposition to the introduction of unmanned stations and automatic ticket machines. Although job opportunities will be lost, there will be no compulsory redundancies as the proposed demanning scheduled for any given year amounts to only 25% of normal labour turnover.

The modern road infrastructure in Strathclyde has contributed to a marked trend of travel to work by private car and encouraged express bus operators to take advantage of the relaxed licencing rules of the 1980 Transport Act. The growth of express bus services has led to increased S20 payments, increasing the cost to the Region of its statutory duty to provide an integrated transport network. The PTE might well be able to attract more rail passengers and increase revenue by adopting a more market orientated approach to pricing within the fares structure.

In January, SRC announced the closure of 3 Glasgow bus garages. As with the S20 payment, the revenue expenditure involved has to be justified in the light of other priorities at a time of severe financial restraint. Existing bus garage capacity is 50% above requirements and overheads on PTE bus services are higher than similar operations. The Region estimate that closure of the Ibrox, Langside and Maryhill garages will lead to 88% utilisation of remaining premises and an annual saving of almost £1m.

The closure plans have infuriated the Trade Unions concerned who are threatening industrial action. The union argument has two broad planks. Firstly, it is stressed that the garages in question are major employers of labour in the areas where they are sited. Although there will be no compulsory redundancies, loss of job opportunities in localities where high unemployment already exists is argued to be unacceptable. As an

alternative, the unions would prefer a continuation of the process of negotiating changes in working practices across the whole labour force in order to find the necessary economies. The Region have undertaken to examine whether the garage sites can be used to house advanced factories and thus offset the affected for the affected areas. Secondly, the unions suggest that the consequences of high overheads and excess capacity should be eliminated by policies designed to expand demand for existing services and to extend the route network.

Although not ruled out, there is little prospect of SRC expanding present bus operations to compete with the Scottish Bus Group (SBG). The Region views its duty of providing a co-ordinated transport system as implying the need "to prevent unnecessary competition on common rail and bus corridors". The case for SPTE buses competing with SBG on routes to Paisley, Barrhead, East Kilbride and Cumbernauld etc. should be assessed in the light of the proposed investment in railway infrastructure which is designed to cater for these centres of population. It is neither sensible nor desirable for SRC to finance a whole variety of public and private operators along these transport corridors. The rail lobby have decisively convinced SRC of the merits of their case. A more appropriate response might be the identification of measures designed to reverse the decline in passenger numbers on PTE services. However, even given favourable assumptions on this score, at least 3 garages are surplus to requirements and present a barrier to any viable recovery plan. In addition, the SPTE estimates that it would require capital investment of £7.5m to preserve and modernise the 3 prime closure candidates. There are fears that the 30 mile limit on route licences may be dropped by the government allowing competitors to operate along existing SPTE routes. Given the high costs associated with the SPTE services, failure to close the garages could jeopardise employment in the whole operation.

The future of Prestwick Airport has been called into question by the recent decision of the Civil Aviation Authority (CAA) to grant a licence to British Midland Airways (BMA) to fly from Glasgow to North America. The locational disadvantages of Prestwick are the root of the problem. Firstly, it has the fourth smallest catchment area of any international airport in Western Europe. Secondly, it has the handicap of having few domestic and no European feeder services. Thirdly, it is poorly connected to major Scottish centres of population through existing road and rail networks. These weaknesses prompted a number of business and tourism interests to back the BMA application for direct transatlantic flights to Glasgow. The owners of both Glasgow and Prestwick, the British Airports Authority (BAA) have appealed against the CAA decision to the Government.

National policy designates Prestwick as one of the three UK 'gateway' airports for flights to and from the USA. The existing agreements give primacy to Prestwick and London over Manchester. The successful BMA application also gained approval to operate from Manchester. This has led to suspicions that British Midland's long run aim is to engineer a change in UK policy and the promotion of Manchester to senior gateway status instead of Prestwick. These allegations are denied by BMA who point to their stated objective of building an integrated Scottish service based on Glasgow, both through their own operations and those of their recently acquired Loganair subsidiary. In January, Loganair declared its intention to make further applications for Scottish routes to feed into existing BMA services and the proposed Glasgow-USA link. Whatever the truth of the matter, the two remaining airlines operating scheduled flights from Prestwick have indicated that they will seek permission to fly out of Glasgow if BMA's permission is not rescinded by the Secretary of State.

In addition, British Airways, who pulled out of Prestwick in 1982 because of high losses, have declared their interest in Glasgow-based North American operations.

Despite the weak case for Prestwick, it is not thought likely that the government will uphold the CAA decision. Indeed, the Secretary of State for Scotland, who is also the local MP for the Prestwick area, has clearly stated that national airport policy remains unchanged. The faint justification for any decision to overrule the CAA would have to be founded in the present inadequacies of Glasgow and possible future developments in Ayrshire. It is certainly the case that the runway and terminal facilities at Glasgow are not of a nature appropriate for a major international airport. The BAA estimate that this would cost £15m to rectify on top of having to write off over £25m invested at Prestwick. In the event of any decision to develop Glasgow there would also be the likelihood of lengthy public enquiries into the environmental effects of runway extension and increased noise of larger transatlantic jets. It may well be in Scotland's best interests to bear these costs as soon as possible.

In the meantime, four silver linings have appeared on the clouds hovering over Prestwick. Firstly, the Belfast based British Emerald Airways plan to start charter flights to the States in early May. Last year, British Emerald were considering scheduled flights. However, these plans were revised in the run-up to the November licence hearings at which BMA made its successful application to fly out of Glasgow. Secondly, the Government have announced "Freeport" status for land adjacent to Prestwick Airport, despite more obvious claims from Aberdeen.* It will no doubt be argued that this will result in greater cargo and passenger business for the airport as will the third piece of good news. British Petroleum have been awarded an oil exploration licence for the Firth of Clyde. In the previous licensing round, several West Coast blocks were allocated and more are likely to follow. Whether these developments will transform the prospects for Prestwick remains to be seen. Strathclyde Region have offered a rail link which would make the case a little stronger. However, the argument for 4 major Scottish airports as presently operated is exceptionally weak.

In February, the government decreed that the Scottish airports must break even within 3 years. Although in 1982-83 their collective trading profit was £591,000, Prestwick lost £3.4m. If, as expected, the government sustain Prestwick, it will merely pass the vexed questions of overprovision and locational deficiency on to some future private airport operator. Only a supreme optimist would bet on Prestwick in such circumstances.

TOURISM

On 22nd November, 1983 the outcome of a 15 month Government review of tourism was announced in the House of Commons by Norman Lamont MP, Minister of State for Industry. The published review includes a programme of work for improving the performance of Great Britain's tourism industry, as well as important organisational changes to the official system of support for the tourist industry established under the 1969 Development of Tourism Act.

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* see Economic Perspective below

The measures to improve GB tourism include proposals relevant to the Scottish situation: notably those relating to historic railway stations, hotel standards, training, computerised reservation systems, and tourist signposting. More generally, the Government's stated desire to see tourism used as a tool for urban regeneration and its commitment to revitalising Britain's flagging seaside resorts may eventually prove significant in Scottish terms.

Part of the review deals specifically with Scotland and outlines new organisational arrangements designed to strengthen the way the country's tourist attractions are marketed overseas. Under the 1969 Act, the statutory Scottish Tourist Board (STB) is only able to market Scottish tourism **within** Great Britain. Overseas promotion of Great Britain (including the Scottish component) rests with another statutory body, the London-based British Tourist Authority (BTA). Under the new arrangements, the STB will be able to supplement (but not replace) the BTA's efforts overseas. Before undertaking any overseas activity, however, STB will need the prior approval of the Secretary of State for Scotland. In turn, the Secretary of State will have to consult BTA before deciding to grant or withhold permission.

Legislative action is necessary to give the STB the necessary powers of overseas promotion. A bill to this effect - the Tourism (Overseas Promotion) (Scotland) Bill - has alreay been laid before the House of Lords. It is expected that it will become law by early summer.

The Labour Market

EMPLOYMENT

The February 1983 issue of the Commentary contained a comparison of the preliminary results of the 1981 Census of Employment with the superceded survey-based quarterly estimates of employment compiled by the Department of Employment. The comparison provided some indication of the extent to which the latter series had tended to overstate job losses since the previous Census in 1978. On the basis of the provisional 1981 Census results, subsequent official quarterly employment estimates were revised and have been reproduced at the aggregate British level in recent issues of the Commentary under the rubric "supplementary series". Publication of quarterly employment estimates has now been temporarily suspended until the data can be revised to take account both of the final results of the Census and the introduction of the 1980 version of the Standard Industrial Classification (SIC 1980). Up to date quarterly estimates for Scotland should be available for publication in the next issue of the Commentary.

Although the provisional results of the 1981 Census indicated a fall in Scottish employment since the previous Census, it was considerably smaller than that implied by the survey-based estimates. The final results of the 1981 Census, published in December last and based on all census returns received and including an improved allowance for non-response, are significantly higher than the preliminary estimates. The extent to which the preliminary census results were misleading can be gauged by comparing the provisional results of the 1981 Employment Census, published in May 1983, with the final results published in December 1983. Table 1 shows that the final census results recorded 1990.7 thousand employees in employment in Scotland during September 1981, approximately 20.7 thousand or 1.1% higher than the corresponding provisional figure. Thus, the final estimates reveal that, in the three years 1978-81, total Scottish employment fell by approximately 76 thousand (3.7%), or by less than half the initial survey-based estimates of approximately 155 thousand (7.5%) and substantially less than the provisional Census estimate of a fall of 97 thousand (4.7%).

Table 1 shows that most of the discrepancy between the provisional and final results is to be found within the manufacturing and construction sectors where changes arising from allowances for non-response by surveyed firms and the non-coverage of small firms were not offset by the effects of reclassification to SIC 1980. Employment in these sectors has accordingly had to be revised upwards while service sector employment has been revised marginally downwards.

As can be seen from Table 2, disaggregation of manufacturing employment reveals even greater divergences between the provisional and final employment estimates for some industries. Food, Drink and Tobacco, for example, "gained" 4.9 thousand jobs, equivalent to an increase of approximately 6.0%, whilst employment in the Timber and Wooden Furniture industries was revised upwards by 2.1 thousand or 14.0%. Employment in electrical and electronic engineering was also revised upwards in the final results by approximately 10%. Relative differences such as these will be

reflected in revisions to the official quarterly employment estimates when these are again made available.

Official employment figures are collected, compiled and published within the framework of the Standard Industrial Classification System. Since the newly introduced 1980 system differs substantially from the discontinued 1968 version, industrial analyses of employment by SIC 1980 and SIC 1968 will not be directly comparable although some conversion of past estimates to SIC 1980 will be undertaken by the Department of Employment. A broad comparison of the first tier of sectoral disaggregation of the two versions is provided by the table below. The introduction of the 1980 SIC has wide ramifications, amongst the secondary effects being consequent breaks in data series on employment and the attendant difficulty in identifying regional changes in employment at industry level during the early years of the recession. However, some reconciliation of the two classification systems should be possible using conversion factors to be made available by the Department of Employment.

BROAD COMPARISON OF SIC 1980 WITH SIC 1968

	Divisions SIC 1980	Orders SIC 1968
0	Agriculture, forestry and fishing	I-Agriculture, Forestry and Fishing
1	Energy and water supply	II-Mining & Quarrying (MLH101,104); IV-Coal & Petroleum Products; XXI-Gas,Electricity & Water
2	Extraction of minerals and ores other than fuels;manufacture of metals, mineral products and chemicals	II-Mining & Quarrying (MLH 102,103,109); V-Chemicals & Allied Industries; VI-Metal Manufacture; XVI-Bricks,Pottery & Glass
3	Metal goods, engineering and vehicle industries	VII-Mechanical Engineering; VII-Instrument Engineering; IX-Electrical Engineering; X-Shipbuilding & Marine Engineering; XI-Vehicles; XII-Metal Goods (nes)
4	Other manufacturing industries	III-Food,Drink & Tobacco; XIII-Textiles; XIV-Leather,Leather Goods & Fur; XV-Clothing & Footwear; XVII-Timber, Furniture etc.; XIX-Other Manufac.Industries
5	Construction	XX-Construction
6	Distribution, hotels and catering; repairs	XXIII-Distributive Trades; XXVI-Misc. Services (MLH 884-888,894, 895)
7	Transport and communication	XXII-Transport & Communication
8	Banking, finance, insurance, business services and leasing	XXIV-Insurance,Banking,Finance& Business Services; XXV-Prof. & Scientific Serv. (MLH 871, 873)
9	Other services	XXV-Prof. & Scientific Serv. (remainder); XXVI-Misc.Serv. (remainder), XXVII-Public Admin. and Defence

Note: These are rough comparisons not precise equivalents.

TABLE 1 : COMPARISON OF PROVISIONAL AND FINAL RESULTS FOR SCOTLAND OF THE 1981 CENSUS OF EMPLOYMENT

Scotland	Division of SIC 1980	Provisional	Final	Difference Nos.	Difference %
Agriculture,Forestry, Fishing	0	44.0	44.5	0.5	1.1
Energy & Water Supply Industry	1	74.0	73.8	-0.2	-0.3
Manufacturing	2-4	483.0	502.0	19.0	3.9
Construction	5	134.0	139.7	5.7	4.3
Services	6-9	1234.0	1230.0	-3.2	-0.3
All Industries & Services	0-9	1970.0	1990.0	20.7	1.1

Source: Department of Employment Gazette

TABLE 2 : COMPARISON OF CENSUS OF EMPLOYMENT ESTIMATES IN SELECTED INDUSTRIES IN SCOTLAND (000'S)

	Provisional	Final	Difference Nos.	Difference %
Electric & Electronic Engineering	37.0	40.9	3.9	10.5
Shipbuilding & Repairing	29.0	31.2	2.2	7.6
Food, Drink & Tobacco	82.0	86.9	4.9	6.0
Footwear & Clothing	26.0	28.6	2.6	10.0
Timber & Wooden Furniture	15.0	17.1	2.1	14.0

Source: Department of Employment Gazette, May and December 1983

Note: Because figures have been rounded independently, totals may differ from the sum of the rounded components.

UNEMPLOYMENT

Total unemployment in Scotland in January 1984 stood at 353,444 (15.8%), an increase of 20,912 over the December count and 687 up on the figure for January 1983. The latest total is the highest yet recorded on the new claimant basis and breaks the downward trend in total unemployment evident over the last quarter of 1983. In the total absence of up-to-date official statistics on Scottish employment, output and productivity, it is difficult to identify the reasons for the recent changes in unemployment. Clearly,

the "headline" unemployment figure has been strongly influenced by seasonal factors. The effects of the unusually severe weather conditions and the end to the festive season buying spree will have exerted an upward pressure on unemployment. The influx of Christmas school leavers to the labour market has also resulted in the addition of 6,507 persons to the total for January 1984. However the figures for seasonally-adjusted unemployment excluding school leavers, which provide the best measure of hard-core unemployment, are equally disturbing. They show an increase of 6,300 from 312,700 (14%) in December 1983 to 319,000 (14.3%) in January 1984.

Although seasonally adjusted unemployment in Scotland has risen in five of the last six months, this latest increase marks the most severe deterioration in a single month since mid-1981. It is possible that the vagaries of the seasonal adjustment programme may be in part responsible for January's significant rise in seasonally adjusted unemployment. Such programmes require a minimum five year run of consistent data to identify the seasonal pattern. The frequent definitional changes in the content of the register since October 1982 mean that such a historical data series does not exist and has had to be estimated, a process which is necessarily imperfect. The seasonal adjustment factors derived from such a series are therefore likely to be subject to a greater than usual margin of error. Though the direction of the error is unknown, it may well tend to underestimate seasonal influences as most other indicators do not suggest a marked weakening of labour market conditions at the turn of the year.

The unemployment figures exclude participants in state supported employment and training schemes. In January 1984, 86,768 people were engaged on ten such schemes in Scotland, compared to 64,223 people on eight schemes in the same month the previous year. The most significant changes over the period have been the introduction of the Youth Training Scheme, within which approximately 27,000 young people are currently occupied, and the increased take-up of the Young Workers' Scheme to account for almost 26,000 sixteen and seventeen year olds. The Community Programme providing temporary employment for long-term unemployed has also been expanded and now embraces 16,000 people in Scotland compared to approximately 6,000 a year ago. Although not everyone employed on schemes would otherwise have been unemployed, the prospect of continued high levels of unemployment will make schemes such as these an important and long-term dimension of the labour market.

While information on employment is currently at a premium due to the withdrawal of the quarterly employment pending revision in the light of the 1981 Census of Employment, the Dept. of Employment have recently made available additional data derived from the new computerised count of unemployed claimants. This data disaggregates the gross flows onto and off the unemployment register in Scotland, by region*, sex of claimant and duration of completed spells. In time this data will permit an in-depth examination of unemployment trends. At present however, the series is insufficiently long to justify anything other than a descriptive analysis.

For Scotland as a whole over the period from April to October 1983, when the total stock of unemployed averaged over 300,000, a total of 242,767 claimants left the register, while 262,095 joined. In short, even in a period of prolonged high unemployment the flow off the register as people find jobs is substantial. Secondly, male and female flows are of a similar magnitude in the 16 to 20 age group. It is at later ages that males make a significantly greater contribution to the statistics, reflecting their

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* See Regional Review below for details of the Scottish regions.

TABLE 3 MEDIAN DURATION OF COMPLETED SPELLS OF UNEMPLOYMENT (WEEKS)

	April-July 1983			July-October 1983		
Age	**Male**	**Female**	**All**	**Male**	**Female**	**All**
16 & under	9	8	9	4	4	4
17	12	9	11	7	6	6
18	21	17	19	11	8	9
19	26	22	24	21	18	20
20-24	19	19	19	14	12	13
25-29	17	22	19	14	17	15
30-34	15	19	16	13	11	13
35-39	15	14	15	13	11	13
40-44	15	15	15	13	11	12
45-49	15	17	15	15	13	14
50-54	14	15	13	11	12	12
55-59	18	17	17	15	14	15
60-64	31	-	31	20	-	20

Note: Data exclude quarterly attenders who fall mainly in the 50 and over age group and in the greater than 52 weeks duration category.

Source: Department of Employment

relative importance in the labour force as age increases. Thirdly, females appear to experience on average a shorter duration of unemployment.

The median duration of completed spells generally fell for all age groups during the third quarter of 1983. The only exception is 25-34 females, whose behaviour may be partly explained by the regulations concerning registration after the termination of maternity benefit. However, as the duration data is not seasonally adjusted no real significance can be attached to the lower average durations during the third quarter. A similar pattern is observable in the aggregate British data.

Over the two quarters the group with the longest median duration of unemployment are nineteen year olds, with only the 60-64 groups experiencing longer spells. Sixteen and seventeen year olds have the shortest completed spells reflecting the battery of schemes designed to facilitate the entry of this group into the labour market. For males, duration of unemployment appears to decline through the twenties and then remain almost independent of age till the mid fifties. For females the pattern is slightly different as a result of childbearing in their twenties. It should be noted that the computed durations will be affected by the exclusion of some categories of unemployed from the register, namely those who have exhausted their entitlement to unemployment benefit and do not qualify for supplementary benefit, and some of the unemployed in their late fifties and early sixties.

Table 4 complements Table 3 and shows the percentage of the off flow by age whose spell of unemployment lasted less than six months. The vast majority of sixteen and seventeen year olds leaving the register do so within less than six months of joining, whereas of those in their twenties and early thirties leaving the register more than one third will have been a claimant for more than six months. In general the proportion of the outflow leaving within six months of first registration was higher for each age group during the third quarter than during the second. This reflects both seasonal factors and the improvement of labour market conditions which other indicators suggest occurred in the autumn of last year.

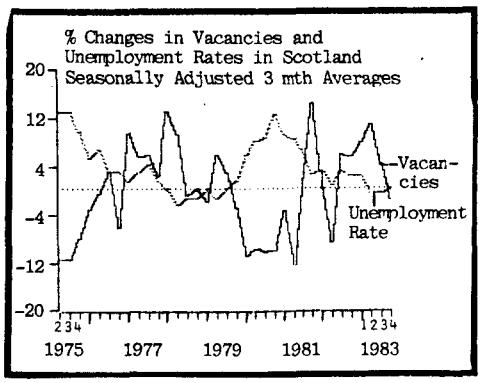
TABLE 4 % OF OFF-FLOW WITH COMPLETED SPELL OF 26 WEEKS OR LESS

	Male and Female Combined	
	April-July 1983	July-October 1983
Age		
16 & under	92	89
17	77	82
18	60	70
19	53	58
20-24	59	66
25-29	59	63
30-34	56	65
35-39	65	67
40-44	64	68
45-49	64	65
50-54	68	71
55-59	61	65
60-64	44	56

Source: Department of Employment

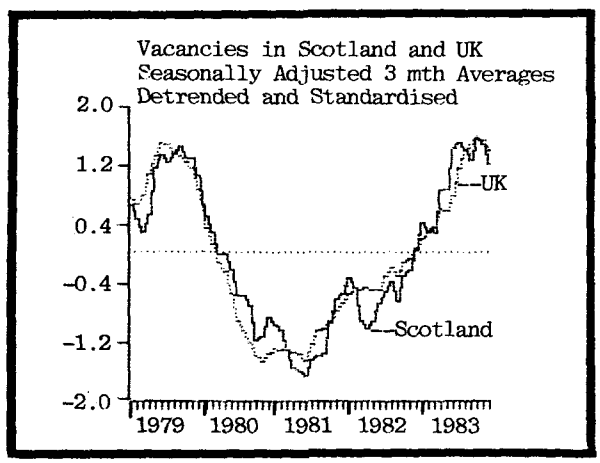
It must be stressed that the data in Tables 3 and 4 refer only to those leaving the register, in other words only to those completing a spell of **registered unemployment.** The durations in the tables will not be affected by the length of time those still on the register have already spent unemployed, ie. by those whose spells are still incomplete. The completed spell durations must therefore not be used to understate the extent of long-term unemployment. Table 4 documents the fact that the typical spell of registered unemployment lasts less than six months, yet the typical claimant on the register has been unemployed for more than six months. The long-term unemployed are by definition under-represented in the outflow. Large though the outflow may be, there is a sizeable component of those on the register whose chances of leaving it are very small.

Vacancies



For both statistical and economic reasons, the relationship between unemployment, employment and vacancies has become less stable over the last decade. Although the number of unfilled vacancies (seasonally adjusted) notified to employment offices has fallen each month since October 1983, in January 1984 it was approximately 6% higher than corresponding period of 1983 and over 40% higher than the lowest total recorded during the recession. These recent figures show that a relatively high level of vacancies can coexist with very high level unemployment. This can occur if the characteristics of the unemployed do not match the characteristics of the labour employers wish to hire, or if the vacancies occur predominatly in the areas where unemployment is relatively low. Nevertheless, as can be seen in

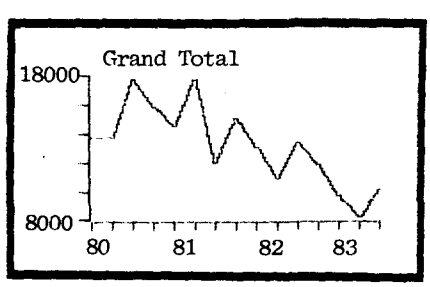
the accompanying graph, the dramatic declines in vacancies in the deep recessions of 1975-76 and 1980/81 were reflected in severe increases in unemployment. Future movements in the stocks of vacancies are however not easy to predict.



Although Scottish and UK vacancies have shown a broadly similar pattern, monthly changes since the beginning of 1981 have been very erratic. Prior to the downturn Scotland's share of total UK vacancies was less than 10%. During the descent into recession, Scotland improved its position relative to the UK and its share of total UK vacancies rose. Since the trough of the recession, vacancy activity in the UK as a whole has strengthened relative to Scotland and consequently Scotland's share of total unfilled vacancies has tended to decline. This concurs with the view that Scotland is not pulling out of the recession as quickly or as strongly as the UK as a whole.

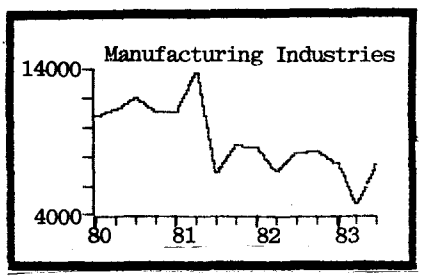
The revisions to the employment data, the recent behaviour of unemployment and the evolution of vacancies over the past four years suggest that Scotland did not go as deeply into recession as the British economy in general, but that equally Scotland has so far emerged from recession at a slower pace than the country as a whole.

REDUNDANCIES



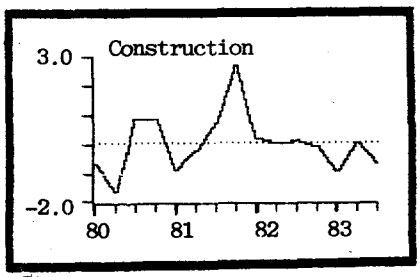
Confirmed redundancies in Scotland are provisionally estimated to have amounted to 5515 during the final quarter of 1983, or approximately half the total for the same period of the previous year. The rate of redundancies is thus continuing to fall from the peak of almost 16,000 recorded during the second quarter of 1981.

The 3rd quarter of 1983 is the last for which sectorally disaggregated information is available. Redundancies in manufacturing at 7,351 were significantly higher than during the second quarter. However, as the provisional total for all industries for the following quarter is less than six

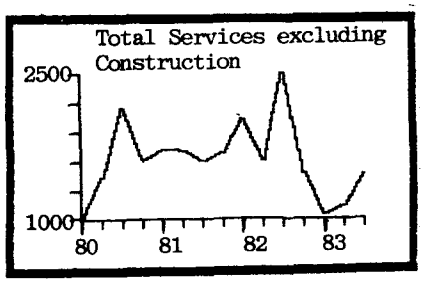


thousand, the third quarter manufacturing total does not presage a renewed upward trend.

The sectoral analysis of redundancies, begun in the last **Commentary**, is continued below beginning with construction, an industry which looms considerably larger in the Scottish economy than in Britain as a whole. In no quarter since 1980 have construction redundancies in Scotland fallen below 1,000, with a peak of approximately 4,500 being reached in the last quarter of 1981. 33,000 jobs have been lost in total since 1980 in a sector which is traditionally one of the largest employers of labour in Scotland.

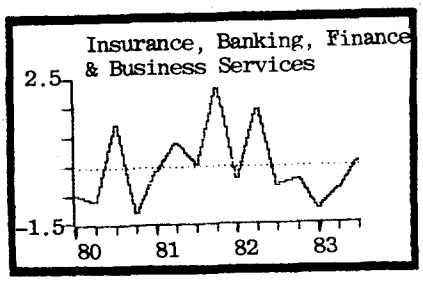


The graph shown is detrended (see last **Commentary** for explanation) and reveals that there is no obvious seasonal pattern to construction redundancies. Possible explanations for contraction in the numbers employed construction are not too hard to find. Amongst these are the drastic reduction in the numbers of council house starts and a decline in the commercial and industrial sectors' new building investment.

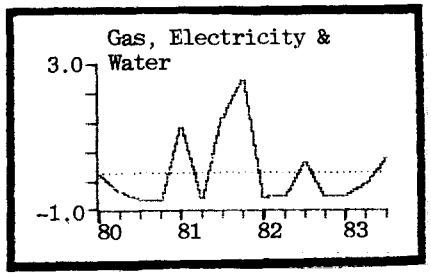


Analysis of redundancies in the service sector and in construction must proceed cautiously as the regulations concerning notification of redundancies apply only to enterprises employing 10 or more. In services and construction, where a relatively large proportion of firms employ less than ten, reported redundancies are likely to represent a smaller proportion of the underlying total than is the case in manufacturing.

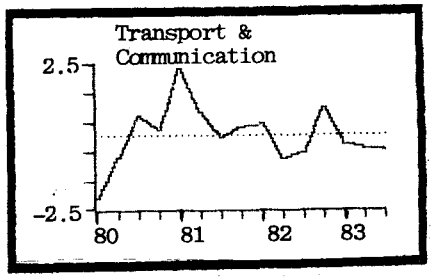
Service sector experience differs quite markedly from that in manufacturing and construction. Although the service sector accounts for more than half of total employment in Scotland, redundancies in it have never exceeded 2,500 in any quarter. The current recession has had a disproportionate impact on the manufacturing sector where the average quarterly level of redundancies even now continues well above this figure.



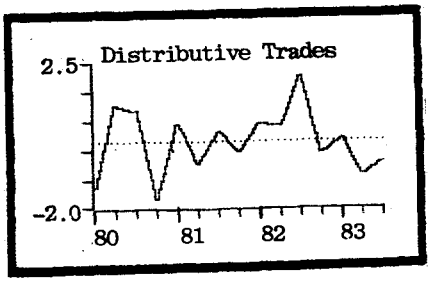
Service sector redundancies peaked in the final quarter of 1982, lagging all other



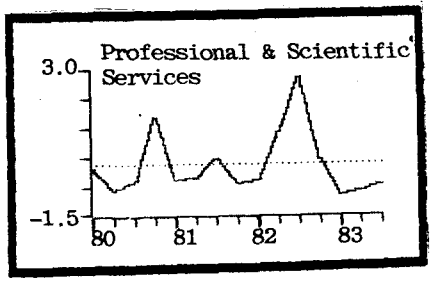
sectors by around one year. These aggregate figures disguise the variable performance of individual service sectors. Banking, insurance and finance, and gas, electricity and water exhibit a relatively constant low level of redundancies. Those which have occurred follow no obvious pattern as can be seen from the detrended graphs. In employment terms at least, these industries have been little affected by the recession.



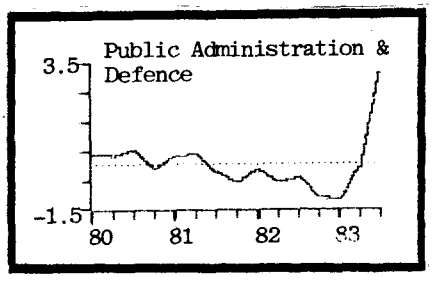
Redundancies in transport and communication have been more significant, peaking at just under 550 in the first quarter of 1981, noticeably earlier than the service sector as a whole. Thereafter, confirmed redundancies have averaged around 250 per quarter with no obvious seasonal pattern.



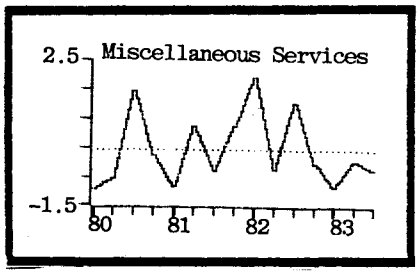
Redundancies in the distributive trades peaked at just over 800 during the third quarter of 1982. Although numbers for this industry are high in absolute terms, when standardised to take account of employment in this sector, they are broadly comparable with the experience in manufacturing. Redundancies during any given year tend to fall quite sharply between the third and fourth quarters. This can be readily explained by the influence of the seasonal increase in consumer spending around the Christmas period.



The redundancy rate in professional and scientific services also peaked during the third quarter of 1982. This sector seems to have experienced two periods of heavy job loss, between the fourth quarter 1980 and first quarter 1981, and between the second and fourth quarters of 1982. In all other periods, figures have been slight.



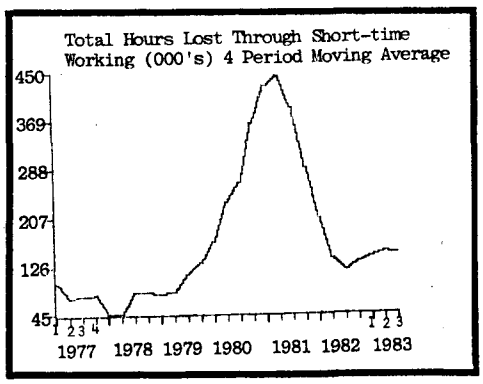
The redundancy experience of public administration and defence appears unique with the figure for the redundancies occurring either in the third quarter of 1983 greater than any of the preceding observations. Indeed until the second quarter of 1983 the number of redundancies had never exceeded 100 in any three month period. This may be explained partly by the fact that the major means used to reduce numbers employed in this area has been through natural wastage and the freezing of



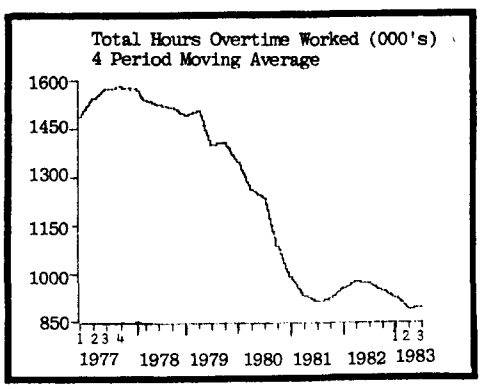
posts.

Finally, little can be deduced from the graph of redundancies in miscellaneous services. Its erratic nature is likely to reflect the heterogeneous nature of its constituent sub-sectors and their differential redundancy experience.

SHORT TIME AND OVERTIME WORKING



Total hours lost through short-time working in the third quarter of 1983 amounted to 111.4 thousand. This represents a fall of 31.3 thousand hours on the previous quarter. Once seasonal factors are taken into account, however, the reduction is much less marked, and is of the order of only 1.1 thousand hours. This plateauing in the Scottish figures is **not** mirrored in the trend for Great Britain as a whole, which continued its downward path - albeit at a slower rate than previously. These data are consistent with the view that Scotland was moving more slowly out of recession during the third quarter than other regions of the UK.



Total hours of overtime worked in Scotland amounted to 894.8 thousand in the third quarter of 1983. On seasonally adjusted figures, this represents an increase of 1.9 thousand hours on the previous quarter, though the unstandardised data show a much larger increase of 21.7 thousand hours. The aggregate British data exhibited similar behaviour over the second and third quarters of 1983 but with more intensive reliance on overtime than in Scotland. The upward trend in both series suggests an underlying improvement in labour market conditions during the summer and autumn of last year and is consistent with official estimates of an increase in total British employment during the third quarter of 1983.

INDUSTRIAL RELATIONS

Industrial relations in the coal industry in Scotland have been deadlocked for some months. Previous closures at Kinneil, then at Highhouse and Sorn in Ayrshire and at Cardowan near Glasgow have now been followed by the closure of Polmaise colliery near Stirling and Bogside colliery in Fife. The uncertain positions of steel production at Ravenscraig, which takes almost all the production of the Polkemmet colliery in Lanarkshire, has added to the problems of the Scottish coal industry as has the continuing fall in the South of Scotland Electricity Board's demand for coal, now down to 4.2 m tonnes compared with 7 m tonnes in 1981. The NCB is responding to this situation by searching for new export markets. One possibility is that the Kilroot station in Northern Ireland might convert from oil to coal if offered a supply of coal at an acceptable price. In addition, the NCB continues to concentrate production in the most efficient, low cost pits.

The NUM reaction to pit closures and to the current wage offer of 5.2% has been the imposition of an overtime ban since October. Industrial relations in the industry have been deadlocked since this occurred. This deadlock may shortly be broken by more direct industrial action triggered by recent pit closures, or may be resolved peacefully. The NCB is committed to talks with the three mining unions by early February in an attempt to get an agreed programme, acceptable to unions and management, which the NCB can then take to the government and seek its approval. Such a programme would contain output targets for the present and near future, details of a closures policy of high cost capacity, and proposals on pay and redundancy provisions.

It seems probable that the NUM will wish to be closely involved in these discussions and may press the NCB to include their claim for a new technology agreement to cover the coal mining industry. The NUM has already submitted proposals to the NCB for such an agreement involving a shorter working week, early retirement, changes in holidays and working conditions and provisions for skill retraining. It claims that computerised mining systems could lead to significant job losses in the industry in the near future. New technology will clearly be an important factor affecting the rate at which economic pits can be expanded and uneconomic pits closed down and will be critical in future dicussions with government. The planned reduction of uneconomic production with a cut in associated losses is seen by the Board as a more urgent problem than the current overtime ban and the losses which that action implies.

There seem good reasons therefore to suggest that the current deadlock in industrial relations in the industry could be broken in the near future. The recent election of a new general secretary may also help. NUM policy must now be agreed between the President and the General Secretary, both of whom have positions of equal influence in the NUM structure. This wider sharing of power may help the NUM to clarify its attitude to the problems to be examined with the NCB during February.

In Shipbuilding, a similar policy of closures, concentration, and the introduction of new working methods is also being pursued, with broadly similar results. An outline productivity agreement, accepted by British Shipbuilders and the unions at the end of January, must be ratified at local level by mid-February to become operational. It means further closures and job losses and significant reduction of demarcation lines. The plan has

been resisted by unions at both national and local level. Although it provides for local agreements and pay increases, it is clear that the new working arrangements may not be implemented smoothly. The outline agreement accepted nationally in January follows an earlier attempt at a national agreement made at a Conference at Newcastle in October 1983 between British Shipbuilders and the Confederation of Shipbuilding and Engineering Unions. Here it was argued that, with a 40% over-capacity in the industry world-wide, the survival of British Shipbuilders required the introduction of new technology and working methods to make the industry more competitive. To this end a National Framework Agreement for survival was offered by BS which included changes in manufacturing techniques, greater use of computer facilities, proposals for better planning and more efficient use of labour. This plan was resisted by the unions who presented counter proposals which culminated in the conclusion of the outline productivity agreement between BS and CSEU in January 1984. Whether or not this will be fully implemented at a local level is the current issue. The odds against full implementation are mounting as workforce mass meetings on the proposals turn increasingly hostile. Failure to reach agreement seems certain to hasten the demise of British Shipbuilders.

Regional Review

REGIONAL LABOUR MARKETS

Calculation of seasonally adjusted estimates of unemployment for the regions of Scotland presents major statistical problems at present. This section reports the unadjusted figures and, to give some indication of trends, present corresponding data for the same period of the previous year.

The last year witnessed little change in the overall number of claimants on the register with the total for January 1984, some 687 above the corresponding figure for January 1983. There are marginal differences between regions with, for example, Tayside experiencing a 4.5% rise in numbers unemployed over the previous year whilst in the Western Isles unemployment fell by 13%. In all, 8 regions experienced a fall in unemployment over the year to January, the exceptions being Central, Strathclyde and Tayside. Although the January figures show significant increases over those reported in the last Commentary, some, but not all, of the variation can be accounted for by seasonal factors.

Vacancies reported in January 1984 also show an increase relative to the figures for January 1983. The overall Scottish increase was 955, the largest percentage increases occuring in the Borders (30%), Fife (27%) and Orkney (60%). Nine regions recorded increase in reported vacancies over the year, the only exceptions being Shetland and Dumfries and Galloway. Care should be exercised here as the figures given for reported vacancies are expected to greatly underestimate the actual totals. This arises for a number of reasons, the major one being that there is no statutory requirement to notify vacancies to the Employment Services. This should be borne in mind when considering the unemployment vacancy ratios reported in table 2. These ratios indicate the number of unemployed registrants for each **reported** vacancy but while overstating the true ratios should not affect inter-regional comparisons. Overall, the ratio for most regions has fallen when comparing January '84 with January '83, confirming the trend reported in the last Commentary. Regional ratios differ markedly, ranging from 9.8 for Grampian to 38.8 for Tayside, compared to an average of 26.6 unemployed persons for every vacancy in Scotland as a whole. There appears to have been little change over the year to January in the ranking of the regions by u/v ratio. The general tendency is for regions with relatively low levels of unemployment to have relatively low unemployment/vacancy ratios.

Data derived from the new computerised count of unemployed claimants provide a more detailed documentation of the extent to which each of the Scottish regions are currently affected by unemployment. It is assumed here and throughout the following analysis that (i) the labour force is homogeneous, (ii) that no individual has entered, left and then re-entered the register in the month under study and (iii) that unemployment was constant during the month of December. Table 3 shows the probability of a claimant leaving the unemployment register during December 1983 in each of the regions. On the basis of these assumptions this probability is calculated as the ratio of each region's off-flow for the month of December 1983 divided by the stock count for that month. The lower the ratio the

lower the probability of leaving the register. Strathclyde and the Western Isles were the regions with the lowest probabilities, while Grampian and Shetland were those with the highest. Overall most of the unemployed had only a small chance of leaving the register during December.

The inverse of the probability of leaving unemployment is the expected length of unemployment spell by region for individuals on the register during December 1983. Strathclyde and the Western Isles register the

Table 1 : Unemployment and Vacancies by Scottish Regions, January 1984

	UNEMPLOYMENT				VACANCIES	
	Total	Change Since Jan 83	Rate % Jan 84	Jan 83	Total	Change since Jan 83
Borders	3730	-379	9.5	10.5	320	+94
Central	19967	+323	16.7	16.4	799	+125
Dumfries & Galloway	7193	-339	14.3	15.0	247	-30
Fife	19373	+95	14.2	14.2	810	+218
Grampian	17332	-338	9.3	9.5	1766	-163
Highland	12071	-37	15.7	15.7	683	+15
Lothian	44956	-122	13.0	13.0	1903	+226
Strathclyde	197641	+745	18.1	18.0	5869	+350
Tayside	26906	+1152	15.4	14.7	693	+89
Western Isles	1959	-297	22.7	26.2	103	+24
Orkney	774	-64	12.2	13.2	46	+28
Shetland	822	-52	7.0	7.5	42	-21
Scotland	**353444**	**+687**	**15.8**	**16.8**	**13281**	**+955**

Notes: All figures are seasonally unadjusted. Unemployment totals and rates include school leavers. Vacancies include those notified at Careers Offices and the Employment Services Division. This leads to double counting and thus a marginal overestimation of the actual number.

Source: Department of Employment

Table 2 : Unemployment - Vacancy Ratios by Region

	January 1984	January 1983
Borders	11.7	18.2
Central	25.0	29.1
Dumfries & Galloway	32.0	29.8
Fife	23.9	32.6
Grampian	9.8	9.2
Highland	17.7	18.1
Lothian	23.6	26.9
Strathclyde	33.7	35.7
Tayside	38.8	42.6
Western Isles	19.0	28.6
Orkney	16.8	46.6
Shetland	19.6	13.9
Scotland	**26.6**	**28.6**

Source: *Manpower Services Commission*

highest expected durations at 10 months each, whilst Grampian at 5.9 months and Shetland at 6.3 months again appear as the least disadvantaged areas. Although the assumptions required to calculate outflow probabilities and durations are somewhat restrictive, the results give some indication of the nature of the problem of long term unemployment. In all regions except Grampian, the expected duration of unemployment is greater than 6 months. In general the expected duration of unemployment in a region tends to be positively correlated with the level of unemployment. The regions with the longest expected durations are typically those with the highest unemployment rates.

If data on the flow onto the unemployment register during December are combined with regional labour force estimates the percentage of the employed labour force in each region who became unemployed during December 1983 can be estimated. Employing the familiar assumption of a homogeneous labour force, this figure divided by 100 can be interpreted as the probability for each region that an employed individual would join the register during December. Those living in the Western Isles had the greatest probability (3.3%) of becoming unemployed in December, compared to 2% for Tayside and 1.9% for Strathclyde. Shetland (1.2%) and the Borders (1.3%) were the regions where an employed person had least probability of joining the unemployment register during December.

TABLE 3 REGIONAL UNEMPLOYMENT EXPERIENCE

	B	C	D & G	F	G	H	L	SH	ST	T	WI
Probability of leaving register during December 1983 (%)	13	11	11	13	17	13	12	16	10	11	10
Expected duration of unemployment in months	7.7	9.1	9.1	7.7	5.9	7.7	8.3	6.3	10.0	9.1	10.0
Probability of joining register during December 1983 (%)	1.3	2.0	1.7	1.8	1.7	2.4	1.5	1.2	1.9	2.0	3.7
Expected frequency of unemployment spells (months)	77	50	59	56	59	42	67	83	53	50	27
Overall ranking	9	4	5	8	11	6	7	10	1	3	2

Notes: Figures for Orkney not available. Estimates of Employed Labour Force for each region are based upon the estimated unemployment rates provided by the Department of Employment. These are themselves calculated using Labour force estimates for 1978 which are subject to revision on the basis of the 1981 Census of Employment.

Key: B: Borders; C: Central; D & G: Dumfries & Galloway; F: Fife; H: Highland; L: Lothian; SH: Shetland; ST: Strathclyde; T: Tayside; WI: Western Isles

The inverse of those probabilities is again of interest, representing the expected frequency with which an individual can expect to experience spells of unemployment. Thus, the regions where the probability of becoming unemployed is greatest will also have the highest frequency of unemployment spells.

These results can now be grouped together by calculating the rank orders for each region for each of the four indicators, namely, (i) unemployment ratio, (ii) unemployment-vacancy ratio, (iii) probability of leaving register, (iv) probability of joining register. In all cases the ranks proceed from the worst to the best on each indicator. Summing the ranks for each region and bearing in mind the assumptions made at the outset a number of observations can be made. Regions differ markedly in their overall experience of unemployment but fall broadly into three categories. Four regions, Strathclyde, Western Isles, Tayside and Central, fare consistently badly. This implies that high unemployment rates are only one facet of regional unemployment differentials. The labour force in these regions also face the likelihood of more frequent spells of unemployment and lower probabilities of leaving the register should they become unemployed. Regions which appear to have weathered the recession relatively well in terms of unemployment are the Borders, Grampian and Shetland. They all have high rank sums indicating a consistently better performance over the four measures. The remaining regions (Lothian, Fife, Highland and Dumfries and Galloway) take up the middle ground. These findings imply that selectivity should be the basis of any government approach to the problem of unemployment. A cursory glance at the worst affected regions does not augur well for the future. They comprise in the main the dominant manufacturing areas of Scotland dependent on the very industries unlikely to recover quickly if at all from recession. Their present unemployment problems can be expected to persist for a significant period. By contrast, the high rank regions, especially Grampian and Shetland, are not hampered by this traditional structure and seem well placed as recovery gathers speed. The liklihood is that regional fortunes will continue to diverge.

School leaver unemployment and YTS

There was little change in the number of unemployed school leavers over the year to January 1984, with a fall of approximately 6.5%, or just over 1650. All regions, except for Shetland, experienced a fall. These figures are disappointing given the introduction of the Youth Training Scheme. Table 5 shows that 26,656 youngsters places had been taken up by December 1983 on the scheme. This represents a take up rate of available places of around 71%. Provisional figures for January estimate that take up has risen to 31,000 or 82%. In all, the MSC has a revised target of 42,000 places, which they expect to fill given current trends in the take up rate. The only probable barrier is continued Trade Union opposition to some schemes which the MSC estimate is holding back 2,500 places. The take up rate is likely to increase markedly after April when sixteen year olds will cease to be eligible for the Young Workers Scheme. Other changes to this scheme to be implemented at that date include increases in the weekly subsidy payable to the employer and in the qualifying wage from £45 to £50 per week. The differential rate of subsidy under the Scheme is to be discontinued.

Table 4 : Unemployed School Leavers by Region

	January 1984	January 1983	Change
Borders	167	206	-39
Central	1513	1628	-115
Dumfries and Galloway	504	515	-11
Fife	1403	1464	-61
Grampian	726	835	-109
Highlands	520	559	-39
Lothian	3190	3333	-143
Strathclyde	13889	14923	-1034
Tayside	1620	1678	-58
Western Isles	49	69	-20
Orkney	23	55	-32
Shetland	20	13	7
Scotland	23624	25278	-1654

The figures are unadjusted for seasonal variation

Source: Manpower Services Commission

Table 5 : Youth Training Scheme December 1983

	Available Places	Acceptance Certificates
Strathclyde/Dumfries & Galloway	20,749	15,133
Grampian & Tayside	5,090	2,897
Borders & Lothian	5,548	3,963
Central & Fife	4,060	3,436
Highlands & Islands	1,938	1,227
Total	37,385	26,656

Notes: Acceptance certificates represent the number of places taken up

Source: Manpower Services Commission

Shetland

Over the past ten years Shetland has prospered not only in relation to its previous history, but also compared to the rest of Scotland. With an unemployment rate of 7%, the Islands continue to benefit from oil related activities. However, with the completion of the oil terminal at Sullom Voe, unemployment is once again on the increase. Indeed, oil related employment peaked in 1980 at just under 9,000 jobs. Of this figure only approximately 15% was actual 'local' labour. Over 60% of employed islanders work in service based industries. The oil boom has had a negative side -generating high labour turnover, rising wage costs and labour shortages as workers drifted from the more traditional, but lower wage industries such as fish-processing and knitwear. This in turn reduced the Island's manufacturing base.

One example of such labour shortages and its consequences has recently come to light. In 1982, Judance Limited, a local knitwear company, received £50,000 in financial assistance from Shetland Islands Council. Nonetheless, the company, which is based in Aith, has recently indicated that it may close its operations there. The threatened closure comes not as a result of a fall-off in orders, on the contrary the order book for 1984 is such that Judane wish to increase production by 100%, but rather because of labour shortages. If the Aith operation fails to hire sufficient local labour to meet production targets the company will have to transfer to Lerwick where it already operates a factory. At present 12 people work in the Aith factory.

The problem facing the Islands` local authority is to try and generate some momentum for those manufacturing industries on which the Islands will rely in the post-oil economic environment. To this end both fish-processing and knitwear are in receipt of funding in an effort to maintain and increase their overall economic contribution to Shetland. The Islands Council is also considering the establishment of a `development agency` to promote industrial growth and diversification. Such a strategy seems both far-sighted and necessary. However, a final decision will not be taken until some time in the summer.

Recent Economic Developments

A company manufacturing high performance antenna systems, Selectronic Services, is to start production in Shetland. The Islands Council has agreed to make available a $20,000 loan to the firm on condition that staff are recruited locally. The loan is interest-free for the first five years, repayable during the following five-years at an interest rate of 5%. It is hoped that after three years 25 people will be employed.

The Islands Council has recently approved some £224,000 in grants to the Shetland Tourist Organisation. Tourism is currently the fifth biggest income earner for the Islands and hopes are high that recent increases in the number of visitors will continue in 1984. Clearly, however, one of the

major problems confronting the tourist trade is the high cost of flying to Shetland - a matter largely outwith the control of the local council.

The Islands' oldest industry, fishing, is actually doing rather well despite the highly competitive attractions of the oil industry, the difficulties experienced with the EEC over fishing, and an overall shortage of white fish. Nevertheless, both in catching and processing, 1983 proved a good year and the industry appears optimistic about the future. Last year the white fish fleet earned in excess of £6,000,000 with a 22% increase in the overall value of the catch. Although one processing factory closed another was re-opened. Moreover, two more factories will open in 1984. Close to 500 people are currently employed in fish-processing and another 600 work directly on the catching side. One of the major problems for the industry is a supply shortage - too few fish are being caught. This constrains growth in processing.

Orkney

Although Orkney's unemployment rate of 12.2% is below the Scottish average, it compares unfavourably with its Islands neighbour to the north. The major sources of employment are agriculture and fishing which together account for some 2,000 people, with the majority in agriculture. The bulk of agricultural incomes comes from beef production. However, recent years have seen growth in food processing, particularly of cheese, scallops, crab, oatcakes and, of course, fudge. Given the dominance of agriculture and related industries, an important share of investment from the Orkney Islands Reserve Fund has gone into farming. Of the £887,000 allocated in grants and loans since 1979, around £176,700 has been committed to farming projects.

Tourism and whisky distilling both make significant contributions to Orkney's economy. However, both have been subject to contrasting fortunes in recent years. Tourism has a gross output greater than that of the fishing industry. Althugh its growth has been slow it has been steady. Output in 1980 was £2,000,000, by 1982 it had risen to 2,900,000 and in 1983 to something approaching £3,200,000. Visitor volume for 1983 was up 9% on 1982 to around 66,500 people between the months of April and October. This was the highest figure since the boom year of 1975-76. Not surprisingly, both Kirkwall and Stromness are the focal points for tourists. However, there is reason to believe that the North Isles are gaining in popularity. Unlike tourism, the distilling industry has suffered from the general malaise that has gripped the whisky business in Scotland in recent years. Gross output of £5,500,000 in 1980 collapsed to £1,000,000 in 1982. 1983 appears to have been little better.

Recent Economic Developments

The two most important industrial developments in Orkney in recent years were the building of an abattoir by the Islands Council and a fish factory near Kirkwall. Construction of the abattoir has led to Orkney meat being sold on the mainland as a branded product in such supermarket chains as Fine Fare and Key Markets. The plant currently provides work for 20 people. The fish processing industry awaits a further boost in the shape of a new factory to be built by Orkney Sea Food Ltd on Lkamd Holm. The company is currently awaiting planning permission from the Islands Council.

Late last year a wind turbine began contributing to the local electricity supply. The machine is a smaller version of one currently being built on Orkney by the Wind Energy Group (British Aerospace Dynamics, Taylor Woodrow Construction, GEC Energy Systems). Construction will take three years. The machine will have a diameter of 60 metres and will generate 9 m KWh per annum making it the largest wind turbine generator in the world. When finally on stream it will provide enough electricity to supply approximately one third of Orkney households.

A likely development in the future is the creation of small factory units on a 30-acre site at Lyness at present containing unused oil tanks which are in the process of being removed. It is hoped that rising prices for scrap steel may make the clearance and development self-financing. Because of financial constraints there will be no SDA involvement, despite earlier hopes that the Agency might play a role. Finally, it is worth briefly considering two recent developments which might just point the way in which future economic development will proceed in Orkney. A nutritionist has decided to return to the island of his birth and set up a protein-mixing plant which will utilise local products such as meat and fish-meal mixed with imported soya and distillery by-products to produce blended feeds for Orkney livestock. Finally, a local councillor wants to cut peat for commercial use from a tract of land known as Ward of Redland. The project should employ 10-15 people during the summer months.

The Western Isles

The Western Isles has been stricken by unemployment. Even in a country well-used to long-term unemployment, the Western Isles suffers particularly badly. The isles, despite their very great natural beauty, suffer from geographical isolation and a dearth of natural resources. Over the years young people have been forced to leave the Western Isles in search of jobs on the mainland. For example, in 1921 Lewis had a population of 28,000, by 1981 it had fallen to 21,500. Harris' population fell from 5,200 to 2,600 over the same period while Uist and Barra have likewise experienced a decline from 10,500 to 7,600 this century.

Considerable efforts are being mounted by the Highlands and Islands Development Board, the Western Isles Council and the EEC to combat economic hardship on the Isles. A recent example of Common Market assistance was the commitment of £3,750,000 in grants from the European Regional Development Fund to the Western Isles. Most of the money will go to several projects already underway or actually completed. These include road improvements, a sewerage system and improved water supplies for Scalpay. However, £47,200 will go to the construction of workship units at Mossend, Stornoway.

The Highlands and Islands Development Board has, in particular, worked hard to stimulate the economy. Between 1973 and 1982, the Board has given in excess of £8,000,000 in grants and nearly £13,000,000 in loans and shares to the Islands. In total, over the same period, it has created around 2,000 jobs and helped retrain 1,000 more. Some critics might claim that such a level of expenditure was not justified given population size and the seemingly impossible task of reducing unemployment. Not surprisingly, some projects have failed, the most notable being the fish-drying factory at Breasclete on the Isle of Lewis.

The HIDB invested £3,200,000 in the factory and in the end losses of £1,000,000 were accumulated. Each job created cost the Board £30,000, but the fact remains that such an effort was born of the need to combat depopulation and stimulate employment. Moreover, it was harnessing resources which are both local and abundant - fish and local fishing boats. The intention was to extend the range of fishing activity in the Western Isles and to maximise its potential. For a number of reasons this did not come off, but the strategy to build on existing resources was, and remains, a sensible approach. The fact is that merely to build advance factories and hope that investment will come to the Western Isles and stimulate a diversity of industries seems forlorn. The Harris Tweed industry is an example of one which has grown out of local strength. Although it suffered in the 1960`s and 1970`s, it has now found a niche for itself at the top end of the clothing market. Its trademark is justifiably identified with quality across the world. It currently employs around 700 weavers.

Recent Economic Development

The most important economic development of 1983 was the announcement that the Secretary of State for Scotland had approved proposals by the HIDB to assist in the development of the $4,200,000 fish meal and oil plant at Ardveenish on the Isle of Barra. The plant will create 30 full-time and 5 part-time jobs, and will be run by the North Shields Fish Meal and Oil Company Limited which will invest £1,750,000 in the project. It is another example of an investment which taps local and industrialised resources, in this case fish shoals to the south and west of the Hebrides. The plans for the fish-meal and oil plant stemmed from the realisation that a number of industrial species of fish, sandeel, Norway pout and Blue Whiting, available around the Western Isles were not being fished effectively.

There is the possibility of a major investment in an anorothocite quarry in South Harris. Firms from the UK, Denmark and West Germany have all taken samples from the quarry. The HIDB have invested in basic jetty facilities at Lingerabay close to the site of the quarry and plans for the second-phase of the investment have been drawn up.

Finally, security of employment for the 320 workers at Heerema`s Lewis Offshore Yard at Arnish, Stornoway, was guaranteed for the whole of 1984 through the winning of an order from Britoil. The contract worth £4,000,000 is for the construction of jackets, piles and deck for the Beatrice `C` platform.