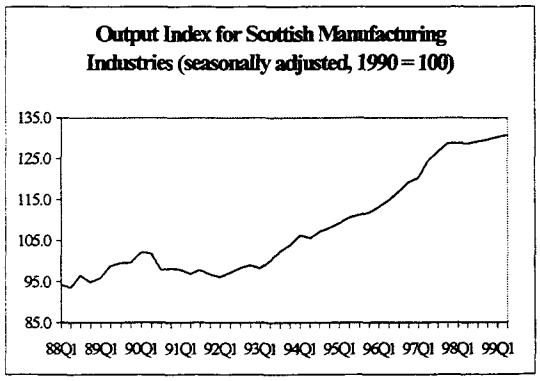
The SCOTTISH *Economy*

SHORT-TERM FORECASTS*

This section presents short-term forecasts for the quarterly growth rates of Scottish manufacturing (Division D of the 1992 SIC) output.



The present forecasting period extends to 1999Q2. In making the Scottish forecasts, the past performance of the Scottish and UK manufacturing outputs are considered, and the National Institute's quarterly forecasts for UK manufacturing output are used for driving the Scottish forecasts. Figure 1 depicts the actual growth rates for Scottish manufacturing output from 1988Q1 to 1998Q1 and the forecasts for 1998Q2 to 1999Q2. It is noted that the National Institute's forecast for UK manufacturing output in 1998 and 1999 has been revised down again. As a result, the present forecast for Scottish manufacturing output in 1998 has been adjusted downward slightly compared with the previous forecast. The annual growth rate for Scottish manufacturing output for 1998 is now predicted to be around 3.3%). Further details of the growth rates are presented in the following table.

TABLE 1. QUARTERLY GROWTH OF SCOTTISH MANUFACTURING OUTPUT (%)	
92/91	0.3
93/92	3.6
94/93	5.6
95/94	3.7
96/95	4.8
97/96	7.7
95Q1/94Q4	1.0
95Q2/95Q1	1.3
95Q3/95Q2	0.5
95Q4/95Q3	0.5
96Q1/95Q4	1.2
96Q2/96Q1	1.4
96Q3/96Q2	1.9
96Q4/96Q3	2.0
97Q1/96Q4	0.8
97Q2/97Q1	3.4
97Q3/97Q2	1.9
97Q4/97Q3	1.7
98Q1/97Q4	0.1
FORECASTS	
98Q2/98Q1	-0.1
98Q3/98Q2	0.4
98Q4/98Q3	0.3
99Q1/98Q4	0.5
99Q2/99Q1	0.4
98/97	3.3

* Development of the short-term model of the economy was made possible by the funding of a three-year research fellowship by TSB Bank Scotland.

DELOITTE & TOUCHE SCOTTISH CHAMBERS' BUSINESS SURVEY

The Deloitte & Touche Scottish Chambers' Business Survey, which is conducted by Strathclyde University's Fraser of Allander Institute together with the Chambers of Commerce of Aberdeen, Central, Dundee, Edinburgh, Fife and Glasgow, is the largest and most comprehensive regular survey of the Scottish business community. In the present survey, which was conducted in June, 810 firms responded to the questionnaire.

MANUFACTURING

Optimism

The decline in business confidence continued and steepened, with a net balance of 22% of respondents reporting that they were less optimistic about the general business situation than they were in the previous quarter. This compares with a balance of 7% who were more optimistic in the second quarter of 1997.

Orders & Sales

Total orders and sales fell significantly (net balances of -18% and -13%, respectively), as the outturn in orders was less than had been expected. Orders and sales to the domestic Scottish market fell and were below expectations. For a further quarter demand from rest of UK markets fell and by a greater amount than anticipated in the previous quarter.

The continuing difficult conditions in export markets continued with demand contracting further as net balances of 27% and 26% of respondents reported a decline, respectively, in orders and sales. The deterioration was again worse than expected.

Concerns about demand strengthened for a further quarter and levels of demand remained the most important factor thought likely to limit output. Concerns about exchange rates remained the second most important constraint on output, with levels of competition the third most significant factor. Concerns about the level of interest rates continued easing slightly.

Finance

The cashflow position of firms remained weak with a net balance of 1% reporting a decrease. This overall figure conceals a sharp deterioration in the cashflow trends in the textiles and clothing sector.

Both turnover and profitability are expected to rise over the next twelve months, but at slower rates than in the previous quarters.

Pressures to raise prices appear to have slackened further. However, it is uncertain whether this reduced pressure or weakening demand has resulted in a smaller net balance (8%) of respondents than in the first quarter (18%) expecting output prices to rise over the next three months.

Investment

Changes in investment plans affected less than 40% of respondents. Investment authorised in the second quarter was again primarily orientated towards reducing labour (36%), with replacement (29%) and efficiency enhancement (21%) the next most important reasons. Only 17% of respondents cited capacity expansion as a reason for investment.

Investment intentions remained positive for plant and equipment but fell marginally for land and buildings.

Employment

The anticipated rise in employment did not occur, and employment fell for a net of 5% of respondents, although for a further quarter changes in employment levels affected less than 50% of respondents. A level trend in employment is forecast for the third quarter, with only the food and drink sector anticipating an increase. More than 50% sought to recruit staff in the second quarter. Skilled manual and managerial were the most frequently sought occupations. 29% reported increasing pay by an average of 4.32%, compared to an average increase of 4.13% in the first quarter.

CONSTRUCTION

Optimism

For a further quarter there was little change in business confidence with again a net 1% of respondents reporting an increase.

Orders and Sales

Total orders fell more strongly with a net balance of 13% of respondents reporting a decline. This was well below the expectation in the first quarter. The rate of decline in Central Government orders eased, whilst the decline steepened with respect to other public sector orders.

Unexpectedly, the upward trend in private sector orders ended as a net of 3% reported reduced levels of orders. Respondents remain uncertain of any increase in private sector orders in the third quarter.

Investment

For a further quarter the improvement in investment intentions for plant and equipment was greater than

anticipated. Of those investing, 51% of respondents reported that the main reason for investment was to replace existing capacity, and 19% cited increasing efficiency.

The percentage reporting that the investment was necessary to expand capacity rose slightly from 12% in the first quarter to 15% in the present survey.

Employment

Changes to employment levels affected 50%, and the trends were again slightly weaker than anticipated. Slightly more than a fifth reported increasing pay by an average of 5.5% (compared to an average of 4.4% in quarter one). Half reported seeking to recruit, problems continued to be evident in the recruitment of suitable skilled manual staffs.

WHOLESALE DISTRIBUTION

Optimism

Changes in business confidence again affected less than 50%, nevertheless, confidence fell from a net increase of 2% in the first quarter to a net decline of 10% in the second quarter, as the rise in sales was less than anticipated.

Sales

Respondents had expected a strengthening in sales in the first quarter, however, the trends were weaker than anticipated, with 40% reporting rising and 35% falling sales (a net rise of 5%, compared to 11% in quarter one). Respondents continue to expect a modest improvement in sales in the third quarter. Concerns as to competition continued alongside the level of interest rates as the two factors thought most likely to limit activity in the third quarter.

Investment

The rise in investment plans continued, although at more modest rates than in previous quarters.

Finance

Cashflow trends continued to weaken, with 34.5% reporting lower cashflow and 17.2% rising cashflow trends. Respondents continue to expect turnover to improve over the next twelve months, although the rate of improvement weakened further from a net increase of 26% in quarter one to a net increase of 18% in quarter two. Expectations of price increases in the third quarter continue to ease with a net of 11% expecting to increase prices, compared to a net of 22% in quarter one. Overall cost pressures eased slightly, once again raw material costs and other overheads remain the main pressures on prices.

Employment

For a further quarter changes to employment levels were reported by a third of respondents, and again the trends were better than had been anticipated. The percentage seeking to recruit staff rose to 56% and 31% reported increasing pay by an average of 3.88% (compared to an average of 3.96% in quarter one).

RETAIL

Optimism

For a further quarter changes in business confidence continued to affect less than 50%, nevertheless, the decline in confidence continued and steepened sharply as net of 32% reported being less confident than at the end of the first quarter.

Sales

The trends in sales were markedly worse than anticipated, and a net of respondents expects the current decline in sales to continue through the third quarter. Changes in the level of sales were again widespread with a net of 5% reporting a fall in sales. Competition, interest and business rates were again identified as the three factors most likely to restrict activity.

Finance

The cashflow position of firms deteriorated further with a net balance of 14% reporting a decrease. Both turnover and profitability are expected to increase over the next twelve months, although the expectations are more modest than in previous quarters, and suggest increasing pressure on margins.

Investment

Investment plans continued to affect 40%, nevertheless, the rising trends continued although eased slightly to a net increase of 10%.

Employment

Employment trends were worse than anticipated, although changes affected only a third. A third

increased pay by an average of 4.46% (compared to an average increase of 4.22% in quarter one).

FINANCE

Personal advances

Personal advances continued to advance strongly again with 50% reporting an increased trend in the level of advances.

Corporate advances

The rate of increase strengthened in the second quarter, and again corporate demand for credit was most evident for working capital, the rising demand for credit for plant/equipment remained largely unchanged at the more modest levels experienced in 1996.

Sectoral demand

Demand for credit rose from all sectors, demand is expected to rise from all sectors, except manufacturing and construction in the third quarter.

Employment

Changes to employment levels affected 40%, declining trends in full time employment were offset by the increased employment of part-time, temporary and agency staffs. Slightly more than half reported increasing pay by an average of 4.22% (compared to an average increase of 3.76% in the first quarter).

TOURISM

Optimism

Changes in business confidence were again reported by only 50%, and confidence eased slightly to a net decline of 2%.

Demand

The trend in total demand was weaker than a year ago and, against expectations, a net of 2% reported a decline in total demand. For a further quarter business demand was the strongest feature with a net of 31% reporting increased demand, compared to a net *rise* of 7% in demand from the rest of the UK and net *declines* in demand from Scotland and from abroad. Capacity used averaged 71%, some 4 percentage points lower than in the second quarter of 1997.

Finance

Turnover rose more modestly but costs more sharply than anticipated, and a lower percentage than anticipated increased prices. Expectations of price increases in the third quarter are more modest than three months earlier.

Investment

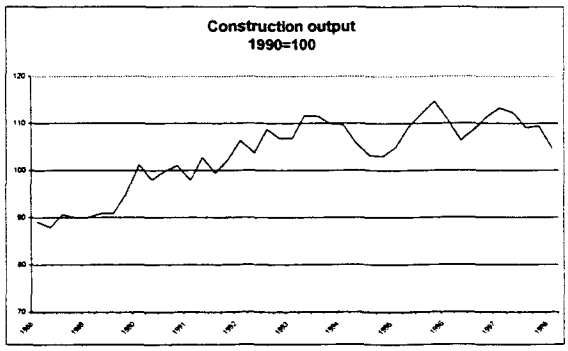
Investment continued to strengthen, although again more than 80% gave the main reasons for authorising investment as replace/renew facilities or improve existing facilities.

Employment

Changes to employment levels were reported by slightly more than a third of respondents, and a net balance of 13% reported increasing employment. Recruitment activity remained high with 95% seeking to hire staff. Two fifths reported increasing pay by an average of 3.5%.

CONSTRUCTION

The latest Index of Production and Construction for Scotland for the first quarter of 1998 (1990=100) shows that the fall in output accelerated, with quarter 1 output down 4.3% from the previous quarter. This compares with a fall of 0.3% in quarter four. Conversely in the UK as a whole output rose by 2%.



Year-on-year figures are somewhat more informative given the seasonal nature of the sector and these show Scottish construction output falling by 7.5% compared to quarter one 1997, and for the UK output growing by 4.2%.

Comparing the latest four quarters' output with the previous four shows a decline of 0.9% compared with a growth of 2.8% in the UK as a whole.

The Halifax House Price Index for the second quarter of 1998 shows house prices rose by 1.8% in the UK in the second quarter compared to 1.1% last quarter. Over the year to the second quarter, house prices rose by 5.5%, marginally above the 5.2% reported in the first quarter. In Scotland house prices rose 1.7% in the quarter and by 2.1% over the year. Although both figures are substantially up on those reported for the first quarter, a long-term upward trend is not evident.

Deloitte & Touche Scottish Chambers' Business Survey - Construction summary results

	Percentage figures		
	Up	Level	Down
Optimism	26.8	47.9	25.4
Trends in actual orders			
Total orders	25.4	36.6	38.0
Central Govt. orders	6.5	43.5	50.0
Other Public sector	9.8	45.1	45.1
Private sector orders	26.9	43.3	29.9
Capacity used	86.3%		
Limits to activity			
Orders/sales	79.4		
Skilled labour	11.8		
Other labour	0		
Raw materials	1.5		
Credit etc	2.9		
Plant/equip investment	19.4	67.2	13.4
Employment trends			
Actual employment	24.3	50.0	25.7
Expected next 3 months	14.7	73.5	11.8
Average pay increase	5.5%		
Percent recruiting staff	51.4		
	Yes	No	
Recruitment difficulties	5.1	42.9	

Evidence from the Deloitte & Touche Scottish Chambers' Business Survey (Quarter 2 1998) shows a net 1% of respondents reporting an increase in business optimism.

Total orders fell more strongly with a net balance of 13% of respondents reporting a decline. This was well below expectations of firms in the first quarter survey. Unexpectedly, the upward trend in private sector orders ended as a net of 3% reported reduced levels of orders. Respondents remain uncertain of any increase in private sector orders in the third quarter.

Changes to employment levels affected 50%, and the trends were again slightly weaker than anticipated. Slightly more than a fifth reported increasing pay by an average of 5.5% (compared to an average of 4.4% in quarter one). Half reported seeking to recruit, problems continued to be evident in the recruitment of suitable skilled manual staffs.

ENERGY

Coal

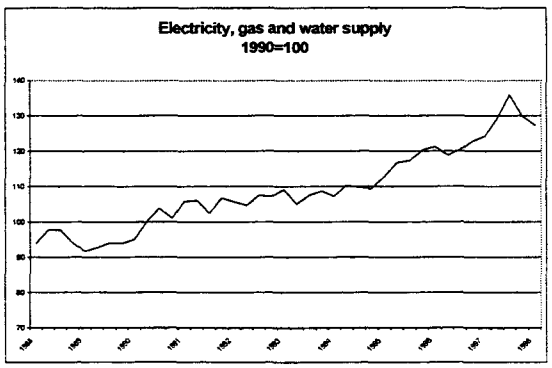
Blackwood Mineral no longer wishes to buy-out Waverly Mining but is still interested in purchasing their 26% stake in Mining Scotland. It would also favour gaining control of Mining Scotland by acquiring Coal Investments 33% share in the group. The proposed purchase would cost around £25 million but this is more than twice Blackwood's stock market value. Talks with another bidder have broken down resulting in a 26% fall in the share price of Waverly. Waverly is valued at £4.7 million and Mining Scotland at £7 million. Waverly Mining and Coal Investments have been looking for a buyer for some time now.

Oil and Gas

Oil and gas production increased by 3.9% on an annual basis but decreased by 15.2% for Q2 1998 on Q1 1998 using the Royal Bank of Scotland Oil & Gas Index data. Oil production increased by 7.1% over the year but declined by 4.7% on a quarterly basis. Gas production decreased by 0.8% and 29.9% on an annual and quarterly basis respectively. Over the year the oil price has fallen by 26.7% from around $18.20 to $13.35. For Q2 1998 on Q1 1998 it also fell by 5.6%. This continued downward trend has had a considerable effect on oil revenues as they fell by 22.5% over the year. Combined revenues have also fallen by 13.5% on an annual basis and 19.8% on a quarterly basis.

Revenues have fallen to an all time low with average revenues in June at £17.7 million, their lowest since

January 1983, compared to £118.5 million (1998 prices) in February 1985. Even when the seasonal effect is removed the 12 month average revenue figure for June is £25 million – the lowest in real terms for four years. The fall in the oil price is the main reason for this and persists despite the slight rise in oil production. The main effect this will have is to depress government revenues therefore weakening the impact on the balance of payments. The price of Brent crude in June averaged $12.12, a fall of 15.8% on May. In sterling terms the price fell by 16.6% and that was 31.8% lower than last year.



While both price and revenues fell significantly, oil production shows a slight increase over the year and it is seasonal factors that are the main factors behind the quarterly fall in production. There are now more of the new fields onstream and contributing to production. In May more than 260,000bpd of oil output came from new fields and a quarter of that came from Foinaven (BP) but existing fields registered a drop in production of 120,000bpd. The increase in oil production at the end of the quarter held up and looks likely to continue despite the low oil price, the constraints on world economic growth and the uncertainty over OPEC. Gas production has fallen for five consecutive months, the largest fall occurring in May due largely to seasonal slackening. There has been little change on an annual basis.

It is clear that it is extremely unlikely there will be an increase in the oil price due to plentiful supply, reasonably high stocks, constrained global economic growth and the uncertainty over OPEC quotas. It is worth noting that nine new oil fields and three new gas fields are now in production. Without these field both gas and oil production would have continued to decline. The main contributors in oil are Foinaven (BP), Curlew and Kingfisher (Shell), J-Block (Phillips) and MacCulloch (Conoco). Many of the new fields and some of the existing fields, which are marginal fields, are now using new sub-sea technology and floating production systems. The implication of this is that now about one third of oil output is taken by tanker uplift while Sullum Voe and Cruden Bay receive about one quarter of output each via established pipelines. The increasing trend of offshore tanker loading is quite important and looks likely to continue. Gas pipeline deliveries continue to show little change and St. Fergus received 35% of all deliveries.

New discoveries announced recently include Shell/Esso's field seven miles from Kittiwake where 8,200bpd of high quality oil has been found and Conoco have a new field close to Suliven. Oil and gas spending in the North Sea is set to fall by £1.7 billion over the next three years according to MacKay Consultants. The North Sea, which accounts for 30% of the world spending, would fall to 23%. The OPEC 10% quota cut saw oil shares move sharply upwards but oil prices remained low. OPEC will incur a $50 billion loss in its attempts to revive the oil price as revenues are down from $148 billion to $97. Low oil prices will however restrain inflation in the West and assist the recovery of the Far Eastern economies. Enterprise oil is to sell 6% of its North Sea assets for $264 million to Intrepid Energy to fund the development of a new field in the Gulf of Mexico. The sale covers Piper, Claymore, Saltire and Scapa fields. The Glasgow based Weir Group has won £15 million worth of North Sea contracts aimed at diversifying its product base.

BP has merged with Amoco in a £67 billion deal set to make it the third largest oil company in the world behind Exxon and Royal Dutch/Shell. It will also be the 14th largest company in the world. Shares moved up by 22p and the new company will trade as BP Amoco with its headquarters in London. It will have a market capitalisation of $110 billion, capital of $53 billion and annual revenues of $108 billion. There are clear implications for jobs but it is not expected that either Grangemouth or Aberdeen will see any significant redundancies. Job losses will largely fall on the administrative centres at Houston, Chicago and Cleveland (Ohio). It is thought that about 6,000 jobs will be lost but most of these will be in the US. However unions and some industry analyst have warned that total job losses could be as high as 20,000 when other mergers and rationalisations are taken into account. Speculation surrounds the take-over of Conoco by Elf in a £35 billion deal. Both companies have significant operations in Aberdeen. A study has predicted that BP Amoco merger could save $2 billion by the year 2000 but if the company matched Exxon's integration of operations then

14,000 jobs would be lost producing savings of $3.3 billion per year. This would allow the new company profit growth that would be independent of the oil price.

Wood MacKenzie has published research that suggest the North Sea could benefit from £6.7 billion in 45 separate projects over the next few years. The number of projects has not varied significantly but are forecast to yield 2.5 billion barrels of oil as opposed to the 1.8 billion predicted previously. The estimated cost has risen from £2.24 to £2.67 per barrel in real terms. There is no change in the downward trend of recoverable volumes from new fields. The average size of reserves has fallen from 100 million barrels to 50 million barrels in 1998 with insufficient discoveries to replace the shortfall. This has led to the 'oil majors' looking elsewhere for significant finds although West of Shetland and the Atlantic Margin are still areas where exploration activity will persist. The research also highlighted the uncertainty around industry taxation as an important factor in deciding exploration priorities.

UTILITIES

The Index for Production and Construction for electricity, gas and water supply in Scotland for Q1 1998 on Q4 1997 decreased by 2.1% and increased by 7.4% for the latest four quarters on the preceding four quarters. In the UK the respective figures are -2.1% and 2.2%. Scottish electricity exports to England through the inter-connector contributed significantly to annual growth during 1997 particularly during Q3, but showed a sharper decline in Q4 compared to the UK. During Q1 1998 the pattern of growth in both the UK and Scotland is very similar.

Electricity

Hydro-Electric has taken over Southern Electric for £4.8bn creating the 4th largest electricity company in the UK. The new company, Scottish & Southern Energy will be headquartered in Perth. The deal was sold as Hydro gaining a much needed customer base in the South while Southern benefited from cheaper electricity generation. Both companies have walked away from deals that has seen others profit from; Hydro failed to pay a premium for British Gas's Scottish operations and Southern declined Southern Water only for Scottish Power to reap the benefits. Further problems include IT systems that are not ideal for multi-utility purposes, the new anticipated regulatory regime where price will be the most important factor and the lack of clarity over what will happen to the clause about supplying rural customers at prices which do not penalise them for where they live. For the Scottish economy the main problem is that Hydro does most of its business South of the border and most of its customers are there. Further, Hydro's Roger Young is retiring next year leaving Southern's Jim Forbes as Chief Executive. It can only be a matter of time before the headquarters move back to Maidenhead although Perth could remain the registered office. The regulatory regime is also pushing down domestic margins and National Power, PowerGen and Scottish Power are increasingly taking up options overseas to increase profits. The deal comes at the same time as PowerGen are to acquire East Midlands for £1.9bn in return for the sale of some generating capacity. The deal could be funded by disposals of up to £1.5bn.

The Scottish Nuclear name is to disappear as British Energy merges Nuclear Electric and Scottish Nuclear into the parent company. The move is expected to cost 200 jobs on top of 400 already earmarked to go. Again British Energy state that their headquarters will remain in Edinburgh and that the East Kilbride office will not close. British Energy generates 27% of the UK's electricity and nuclear electricity does not contribute to CO_2 emissions. Despite good financial and operating performance the problem of long-term disposal probably means there is little likelihood of any new nuclear stations within the next ten years as a radical change in energy policy would be required.

Gas

British Gas (BG) has been reported as wanting to sell its storage business for £1bn. This made a profit of £15 million last year and BG requires to dispose of this to avert a clash with Ofgas that would probably result in a referral to the Monopolies and Mergers Commission. The interested buyers are thought to be Scottish Power, Shell and Enron. BG stated that 'no decision had been taken', as they believe there is more than one way of introducing competition to the storage market. It is possible that they might retain the business but allow several companies to operate it under licence. Whatever the outcome both regulatory and government approval will be required.

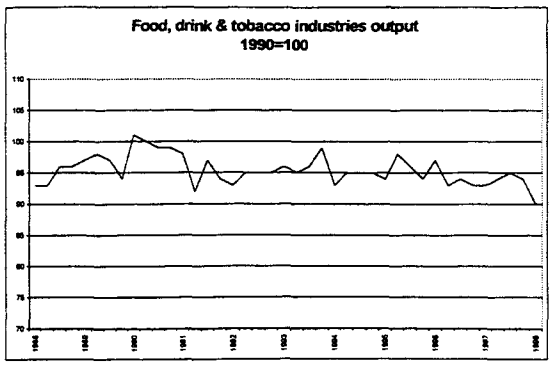
MANUFACTURING

FOOD, DRINK AND TOBACCO

The Index of production for the Food, Drink and Tobacco (FDT) sector in Scotland stood at 90 in the first quarter of 1998 (1990=100), a drop of 4.3%

from the previous quarter. The FDT index across the UK equalled 108 and fell by only 1.8%. Over the year to the fourth quarter, production in Scotland fell by 0.1% compared with a 1.5% rise in the UK.

The second quarter results from the Deloitte & Touche Scottish Chambers' Business Survey showed a drop in confidence, although for only a surprisingly moderate net 6% of respondents. Larger firms were more likely to report falling confidence and, indeed, the confidence level rose among small firms. One reason for this was that there was, unlike in any other sector, a net increase in new orders, with a net 14% of firms reporting increases. Increased orders were reported only in the home market, however and export orders, in contrast, declined for a net 26% of respondents. Average capacity utilisation was 72%, and a net 8% of firms reported that they had revised investment intentions upwards. However, a significant number of firms, 42% of the total, reported that a lack of orders was more of a concern in the second quarter than had been the case earlier in the year. In addition, 44% said that they had become more concerned over the strength of sterling and 22% cited increasing concerns over interest rates.

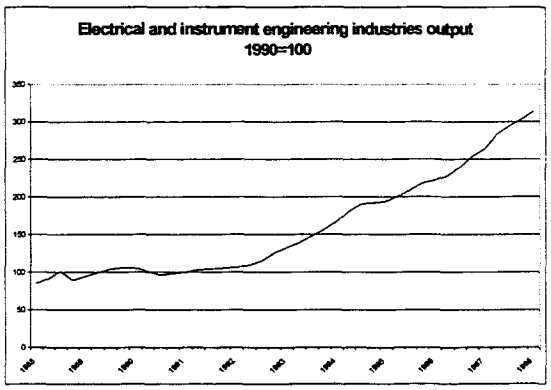


Recent good news in the company sector in Scotland included a 13% increase in profits at Scottish & Newcastle. Most growth came from a better performance in the company's in-house pubs and higher profits in its brewing division. There was also further encouraging news from the milk retailer, Robert Wiseman dairies, who in June announced a 49% increase in profits. Wiseman is to further increase its penetration of the English market by building a new dairy in Birmingham.

ELECTRONICS

The Index of Production and Construction for the Electrical and Electronic Engineering (EEE) sector in Scotland stood at 314 in the first quarter of 1998 (1990=100), indicating a 4% rise from the previous quarter. Year on year growth for this sector to the first quarter of 1998 remained high at 21%. Growth by this sector in Scotland again outperformed the other Scottish manufacturing sectors, with Scottish manufacturing output increasing by a modest 0.1% over this period. UK output for the EEE sector increased by less than 1% over the previous quarter, although year on year growth remained positive with a 3% rise.

Business optimism in the EEE sector, as reported in the most recent Deloitte & Touche Scottish Chambers' Business Survey reveals an increase in the number of respondents reporting reduced confidence. Thus confidence fell for a net 29 per cent of respondents across all size bands. Moreover, respondents, in general, were less optimistic about the current business climate than one year previously.



The trend in the total volume of new orders and sales, over the last quarter, reveals a net decrease for respondents across all markets. Changes in the level of orders were again broadly based, affecting 64 per cent of respondents. A net 21 per cent of respondents reported a decline in orders with net Scottish, UK and export orders all falling. The trend in the total volume of sales followed a similar pattern for a net 11 per cent of respondents. The decline in orders and sales was most evident in medium sized firms. Overall, firms are modest in their expectation of demand for the third quarter of 1998.

The average capacity utilisation for respondents in this sector fell five percentage points to 77%, which a net 20% of respondents regarded as being lower than one year previously. Investment intentions for plant and equipment were revised downward for a small net balance of respondents while investment

intentions for land and buildings were revised upward by a similar small balance of respondents. Of those firms who undertook investment in the previous three months, the need to introduce new technology and expand capacity were nominated as the most important reason behind the decision to invest. Investment intentions for both plant and equipment and land and buildings are expected to be revised downward for a small balance of respondents over the forthcoming quarter.

Total employment changes affected 56 per cent of respondents over the previous quarter with 24% increasing employment against 32% who reported a fall in employment levels. This net fall in employment is forecast to continue, but ease in the third quarter.

The general business outlook in this sector seems to have worsened. The need to reduce prices coupled with the level of orders and sales suggest a possible downturn in trading conditions, particularly for medium sized companies who appear to be under more pressure to control costs. Larger firms were more affected by exchange rates (high value of Sterling) than respondents in other size bands, though the reported decline in export orders and sales was least evident amongst these firms. Overall respondents expect modest rises in both turnover and profitability over the next three months. Given the composition of this sector, which is dominated primarily by larger international companies, it is difficult to anticipate the impact of these concerns on future output growth. Clearly, trading conditions are becoming more difficult which may ease future output growth. Finally, pressures to raise prices again eased within this sector which may reflect the general slowdown in both the Scottish and UK economy.

In the company sector, there are continued signs that there is consolidation and restructuring by multi-national companies across the industry, which is impacting on Scotland. For instance, the recent takeover of Digital Equipment by Compaq will lead to a reduction in employment of 500 jobs in Scotland. Restructuring of production activities by Compaq is part of a drive to reduce world-wide employment in the company by 20 per cent (17,000). Consolidation in Scotland means that the production of personal computers will be based at Compaq's plant in Erskine. The former Digital Plant at Irvine will no longer produce personal computers with the production and associated employment moved to the larger Erskine Plant. Similarly, Compaq will move its service organisation to the Irvine plant. The anticipated job losses in Scotland stem from the transfer of assembly printed circuit boards, based on Intel processors, to Compaq's plant in Singapore. Production of these lines will cease at both Compaq and Digital plants in Erskine and Ayr.

American-owned company, Viasystems, the world's largest producer of printed circuit boards (PCB's) is considering the future of its two electronics factories located in the Borders region. The company, which shed 210 jobs in May, was currently carrying out an assessment of its situation. Fears are that both the plants at Selkirk and Galashiels, which employ around 950 workers, will be closed with the work shifted to other operations in Tyneside and the Netherlands.

On a more positive note, Lexmark international is set to double its Scottish workforce to more than 700 following the announcement of a £24 million investment in a new production assembly plant in Rosyth. The US Company is set to produce computer printer cartridges at this plant. Motherwell Bridge, the Lanarkshire engineering group, has strengthened its information systems division with the acquisition of Vector International, the Australian software design firm for £1.5 million. The Vector take-over is its second acquisition in the last six months, following its purchase of Dutch software installation firm PS Automatisering.

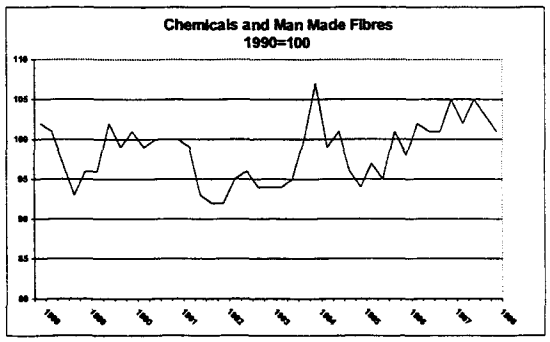
Finally, the proposed rescue attempt of the Hyundai semi-conductor plant in Fife by American microchip producer Intel looks doomed. Talks between both companies have broken off with Hyundai continuing to seek discussions with other possible joint-venture partners. Hyundai maintains that it is still committed to the Dunfermline plant.

CHEMICALS

The Index of Production and Construction for Scotland for the chemicals and man-made fibres sector showed a 2% fall for quarter one on quarter four to stand at 101 (1990 =100) but an increase of 0.3% on an annual basis. In contrast, the figures for the UK chemicals sector showed an increase of 0.1% over the quarter but a fall of 1% on an annual basis.

According to the latest Deloitte & Touche Scottish Chambers' Business Survey the fall in business confidence continued, accelerating sharply, with only 10% more confident and 53% of firms less confident compared to the previous quarter. Firms were no more confident than compared to one year ago, although almost 30% reported being more optimistic more than 60% were less so.

Respondents had anticipated an increase in demand however this proved misplaced as 53% reported declining total orders (a net of -37%). Changes in the level of Scottish demand were more widespread affecting 60% and the decline accelerated to a net of –33%. Rest of UK orders fell, to a net of –20% and export orders declined to a net of –39%. Respondents have revised expectations downward and no longer expect a rise in orders.



Changes in the level of sales affected 63% with 53% reporting falling, and 10% rising, sales. Declining trends in both Scottish and export sales were reported with 47% reporting declining Scottish and 33% declining rest of UK sales. Lack of demand continued to be cited by a considerable number of respondents as the factor most likely to affect demand. Other factors of concern included exchange rates and interest rates.

Changes to investment plans affected 40% and the declining trend in investment in plant/equipment re-emerged. Investment authorised in quarter two was directed toward reducing labour, replacement and increasing efficiency.

The decline in total employment continued and more than 40% of respondents reported reducing employment. The decline is expected to continue through the third quarter.

In the company sector Scotia Holdings, the Stirling based pharmaceuticals firm, is to close its production and research plant in Carlisle, which produces the company's flagship drug Foscan. Activities are to be split between its facility at Callanish on the Isle of Skye and its headquarters in Stirling. Approximately half of the Carlisle staff are to be offered opportunities in Scotland.

Following allegations made by the former head of trials at British Biotech concerning the trials of its two main drugs, Marimastat and Zacutex, the company has warned that European and US regulators may refuse to accept research data. The warning came after the company revealed that it had moved further into the red with an after tax loss of £44.9 million for the year to 30 April compared with a £28.9 million loss in the previous year. The company is in exploratory talks with potential alliance partners for Marimastat in the US and is considering a marketing alliance or out-licensing partner for Zacutex.

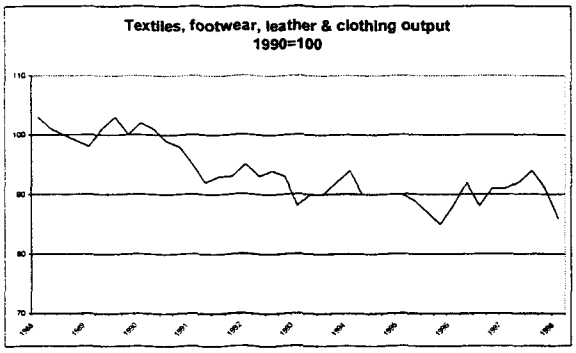
In an attempt to address public fears concerning safety of phthalate plasticisers, chemical producers are to launch a drive to identify and restrict dangerous chemicals in an attempt to head off threatened European legislation. Phthalate plasticisers in soft PVC toys, organo-phosphates in agricultural chemicals and other chemicals are thought to be responsible for a range of human fertility problems.

TEXTILES, FOOTWEAR, LEATHER & CLOTHING

The Index of production for the Textiles, Footwear, Leather & Clothing (TFLC) sector in Scotland stood at 86 for the first quarter of 1998 (1990=100), a substantial fall of 5.1% from its level in the previous quarter. During this time, sectoral production across the UK fell by 0.8%, and so Scotland seems to be under-performing relative to the rest of the country. However, given that UK production fell by 4% over the year, it seems more likely that losses were simply delayed in Scotland, and our annual performance is not unlike that of the UK industry. It is also notable that several other sectors in Scotland - Chemicals, Electricity and Water, Food, Drink and Tobacco and Other manufacturing - also recorded falls in output, so it seems that the problems in TLFC output are shared by other industries.

The second quarter results from the Deloitte & Touche Scottish Chambers' Business Survey confirm the above grim picture. The figures show a further fall in confidence in the industry in Scotland, with a net 14% of firms feeling less optimistic than at the time of the previous survey. A net 43% of respondents reported a decline in orders in the previous three months, with 65% actually seeing orders fall. Export markets were most likely to see reductions, with a net 35% reporting falling orders, but orders also fell substantially in Scottish markets and in the rest of the UK. The trend in expected new orders was also down in all three markets but the greatest reductions were again expected to come in foreign markets. Sales were also down, for a net 37%

of respondents, with export markets again hardest hit. Not surprisingly, investment intentions were level (61% of respondents) or down (31.5%).



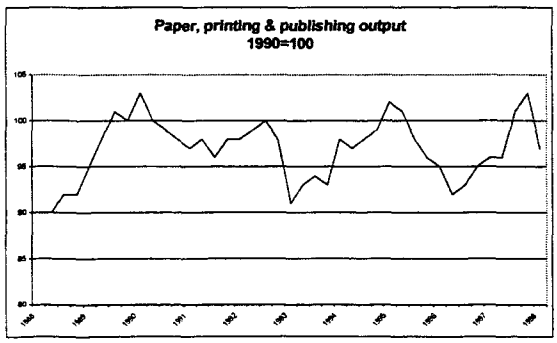
Companies were asked to nominate what they saw as the most serious short-term concerns. 60% saw this as the level of exchange rate, reflecting the difficulties in export markets discussed above - 59% cited a lack of orders, no doubt reflecting concerns over foreign sales. 27% cited the level of interest rates, reflecting concerns over government policy.

Scotland's main textile company has suffered serious problems because of the decline in foreign markets. Dawson International announced in June that it would shed 700 jobs in the Borders because of the strength of sterling and a reduction in sales in the Far-East. The company is to close several factories, and jobs will be lost in Berwick (300), (150), Galashiels (200) and Selkirk (50). It is expected that around £10m in wages alone could be lost from the Borders economy. Local union leaders and council officials have called on the Scottish office to intervene, and Dawson itself has said that it will listen to offers for the company, but no buyer is yet in sight.

PAPER, PRINTING AND PUBLISHING

The Index of Production and Construction for the Paper, Printing and Publishing sector in Scotland reported a 6.0% reduction in output from the previous quarter, to stand at 97 (1990=100) for the first quarter of 1998. This decline in output was anticipated in the previous Quarterly Economic Commentary following the downturn in business confidence, noted by respondents of the Deloitte & Touche Scottish Chambers' Business Survey. However, annualised growth for this sector in Scotland reveals that output increased by over 5 per cent from the previous year. The corresponding UK figures reveal that output growth remained unchanged over the previous quarter and annualised growth increased by around 1 per cent.

The results from the most recent Deloitte & Touche Scottish Chambers' Business Survey (Quarter 2, 1998) suggest that trading conditions are becoming increasingly difficult in this sector. The decline in business confidence, reported for the previous quarter, continued for a net 36 per cent of respondents, with an increasing number less confident about the general business climate than one year previous.



The trends in total orders and sales over the previous quarter confirm this outlook. Declining orders across all markets were reported, with 39% reporting falling Scottish, 29% declining rest of UK and 47% falling export orders. The trend in the total volume of sales followed a similar pattern, with export sales again most affected. The trends in orders and sales for the forthcoming quarter are forecast to rise by a positive balance of respondents, although similar expectations to rising demand, noted in the previous two Quarterly Commentaries, never materialised.

The average level of capacity utilisation for the Paper, Printing and Publishing sector fell from 78% in the first quarter of 1998 to 74% by the end of the second quarter. Investment intentions in this sector, over the past quarter, were revised downward for land and buildings by a small net balance of respondents, with no net change for plant and equipment. Investment intentions for the forthcoming quarter are forecast to be revised downward by a net positive balance of respondents.

The latest Deloitte & Touche Scottish Chambers' Business Survey also reveals that changes in total employment affected 46% of respondents, as the decline in employment steepened for a net 21% of respondents, over the past quarter. This decline in

total employment is forecast to continue into the next quarter. Over the same period, nearly one third of respondents increased wages and salaries by an average 4.1 per cent.

In summary, the reported fall in output growth for the first quarter of 1998 was in line with the outlook conveyed by respondents in the recent Deloitte & Touche Scottish Chambers' Business Survey. The most recent survey reveals that weakening trends in turnover and profitability coupled with harsher trading conditions underlie the declining trends in business confidence. Accordingly, growth is unlikely in this sector over the forthcoming quarter.

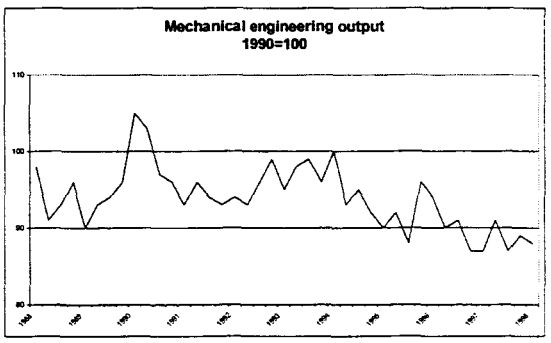
In the company sector there was increasing signs that the strong pound is having an adverse effect on the performance of firms within this sector. David S Smith, the paper and packaging group, announced a 46 per cent fall in pre-tax profits to £51.1 million. The company cited the strength of sterling and the recent slowdown in the UK manufacturing sector as the main factors. Tullis Russell, the Glenrothes based papermaking and specialist coating group saw pre-tax profits, to the year end 31 March, slump to £1.4 million, representing a fall of 80 per cent. The strong pound halved profits on export sales, which account for 45 per cent of overall turnover.

Mirror Group, the UK newspaper publisher that holds a 20 per cent stake in the Scottish Media Group is considering whether to sell its share in SMG following interest from other media groups. SMG owns two ITV companies (Scottish and Grampian) and has recently acquired a 15 per cent stake in Ulster TV, as well as its publishing titles. If the Mirror Group, which also owns two prominent Scottish titles (Daily Record and Sunday Mail), sold its stake in SMG to one of the larger independent TV companies, it could eventually herald a take-over bid. However, SMG aims to retain its independence.

MECHANICAL ENGINEERING

The combined effect of a high interest rate and a strong pound is beginning to bite in this industry. The latest Scottish Office News Release (6 August 1998) showed a 1.2% fall in Scottish mechanical engineering output in the first quarter of 1998. The outlook for this industry in the second quarter seems even bleaker, as is revealed in the latest Deloitte & Touche Scottish Chambers' Business Survey for the second quarter of 1998 (DTSCBS).

The latest DTSCBS showed that, on balance, more firms reported a fall in the volume of sales to all the markets, both domestic and external. The hardest hit was export sales. Therefore, the once domestic-demand-led growth as recorded in the previous DTSCBS turned out to be short-lived and the industry is back to its long-suffering stagnant state again.



Accompanying the poor sales performance is a sharp deterioration in business confidence among the corresponding firms, which is further dented by the disappointing volume of new orders from all sources in Q2 98. Compared with the situation in Q1, a net of 25.6% of firms were less optimistic about their business situation, and the volume of new orders was down in a net of 32.5% firms in Q2. Looking to the third quarter, there is hardly any sign of encouragement in terms of expected sales and new orders, with more firms, on balance, expecting falls in new orders from all sources and sales to all markets. The reduction in output also affected firms' capacity utilisation rate, which fell in a net of 23.8% of firms and stood at 76.3% on average in Q2.

Despite the short-term difficulties, investment intentions in Q2 remained unchanged from Q1 in most of the firms. On balance investment plans for both "plant and equipment" and "land and buildings" rose in more firms. For those firms that authorised investment, the main reasons were: reducing labour costs (31%), increasing efficiency (31%), replacement (26.2%), introducing new technology (21.4%), and expanding capacity (21.4%).

Over the next three months, only a small proportion of firms (14%) expect to raise their prices, mainly because of increased prices of raw materials and other overheads. The factors that cause overwhelming concern among the firms are orders or sales, exchange rates and skilled labour. This fact reveals the strong external orientation of this industry and suggests that any sustained recovery of this

industry could only be export-led. Over a longer-term horizon, firms on balance expect their turnover and profitability to improve in the next 12 months.

On the job front, most of the firms maintained their employment levels in all forms of employment in Q2, although on balance more firms cut full-time permanent jobs, particularly among female workers. Over the next three months, on balance firms expect the employment situation in this industry to be slightly worse than in Q2. Again permanent jobs will be the worst affected.

Wage claims remained subdued in this industry, with only 21% of the firms having increased their wages and salaries in Q2. The average percentage increase was 4.9%. The difficulties with employing skilled manual and technical workers were still experienced by a large proportion of firms.

SERVICES

DISTRIBUTION

The volume of UK retail sales increased by 0.9% in July, although the increase was magnified by a revised figure showing that the drop in June was bigger than early estimates implied. The underlying trend shows sales growth slowing. The rise in July sales was fuelled by a 6% jump in clothing and footwear sales and mirrored a 6% reduction in clothing and footwear prices.

The British Retail Consortium (BRC) showed July as a poor month for retail sales with the value of its members' sales growing by 1.5%. The BRC reported that clothing and footwear had been worst affected with discounting of summer ranges due to poor sales caused by bad weather.

A new Scottish retail index, developed by the Royal Bank of Scotland and Edinburgh University, showed that Scottish-based companies in the non-food retail sector had done substantially worse over the past two and a half years than their counterparts in the rest of Britain. Pessimism about the short-term prospects for the Scottish economy appears to have caused sales to grow particularly slow in the latest quarter. The index showed sales by Scottish non-food retailers growing by 7.3% (seasonally adjusted) between early 1996 and mid 1998 compared to 13.1% for the UK. During the three months to the end of June Scottish retailers experienced growth of 0.1% compared to 0.4% in the UK, although Scottish firms outperformed UK ones during the year to the end of June.

Evidence from the Deloitte & Touche Scottish Chambers' Business Survey for the second quarter showed that business confidence declined sharply in retail and declined moderately in wholesale. The rise in total sales in retail ended though wholesalers reported rising sales. Weakening cashflow trends were again evident in both sectors. For retailers the main concerns were levels of competition, interest rates and business rates whereas wholesalers reported concerns as to competition alongside the level of interest rates. Rising employment trends were evident in wholesale distribution but a net balance of retail firms reported a fall in total employment. Recruitment activity was lower than in the first quarter in retail, while the percentage of wholesalers seeking to recruit staff rose to 56%.

Deloitte & Touche Scottish Chambers' Business Survey - Retail summary results

	Percentage figures		
	Up	Level	Down
Business optimism	7.0	53.7	39.3
Actual sales	33.5	28.0	38.5
Expected sales	26.8	43.3	29.9
Investment plans	25.0	60.5	14.5
Cashflow	16.8	52.6	30.6
Turnover	39.8	37.8	23.4
Profitability	32.1	35.2	32.6
Price change	31.7	63.9	4.5
Actual employment	15.2	67.0	17.8
Expected employment	14.6	75.0	10.4
Average pay increase	4.6		
Percent recruiting	47.2		
Recruitment difficulties	51.1	48.9	

TRANSPORT

Transport is to benefit by about £1.7 billion over the next three years from the Comprehensive Spending Review (CRS). In the UK it is thought that £400 million will go to the main road network with both the rail network and buses receiving £300 million, and £700 million going to local authority transport plans. The most significant shift in policy is the increased burden placed on motorists who have to finance the lion's share of the new spending proposals. Motorists will face tolls on motorways and

selected trunk roads, employers are to be charged for employee car parking spaces and local authorities will get to keep revenue raised from motorists in order to improve public transport. The ring fencing of finance is an important step forward, which has so far been resisted by the Treasury, but they will collect VAT from any charges levied. The White Paper on transport also proposes a new strategic rail authority with a £100 million funding from the CRS to promote rail investments. It is thought that charges will be in place by 2005 giving a revenue stream of £1 billion in 2005-06. The new strategic rail authority will probably tighten up regulation on train operators and on Railtrack. The markets saw Stagecoach, National Express and Railtrack shares all dip after publication of the White Paper while those operating mostly in the bus industry, i.e. First-Group, Arriva and Go-Ahead all saw their share price rise.

Scotland's White Paper *'Travel Choices for Scotland'* largely heralded the same approach to transport as in the UK. There will be a £90 million Public Transport Fund that will be aimed at improving bus and rail services. Caledonian MacBrayne is to receive £20 million for the provision of two new ferries while Highlands & Islands Airports is to receive an extra £8.3 million. Road maintenance will see increased spending of £58.6 million with a £10 million Road Development Fund being set up mainly to fund research into transport. The policy proposals have tried to give extra consideration to those in rural areas and to those without a car. The government's critics have not been slow to react, however with most of the criticism in Scotland directed at the proposals for local authorities to keep revenue raised, the targeting of the motorist and the implicit support for more roads as some see Scottish Office ministers 'watering down' UK policy. Most transport officials, commentators and industry analysts see the policy as being 'evenly balanced.'

Road

Citylink has been bought over by Metroline a southern-based transport operator in a £10 million acquisition. National Express has also relinquished control of Highland & Country Coaches, selling them to Rapson Coaches for £4 million in an unrelated deal. National Express acquired Citylink and Highland & Country for £5.3 million (1993) and £1.8 million (1996) respectively.

First-Group have taken up the remaining 80% shareholding in Mainline, the Sheffield based bus operator for £29.6 million. Mainline, an employee owned company posted profits of £1.7 million on £56.5 million of turnover for 1997. First-Group saw their own profits rise by 42% to £72.5 million. The bus division increased by 19% to £93.2 million while turnover rose to £613.5 million. The profits in Great Eastern Railway are £9.3 million on revenues of £173 million while Great Western saw a profit of £6.1 million, a 221% increase on last year. A further acquisition is that of Citybus in London in a £24 million deal. The company had a turnover of £28 million and controlled 5% of the London market whereas First-Group has an existing London operation with an 11% share of the London market.

Stagecoach increased their pre-tax profits by 32% on last year to £158.5 million on turnover of £1.4 billion, up 20% on last year. The dividend payment has increased by 33%. Porterbrook, the train leasing company contributed £133.3 million, an increase on last year of 67%. South West Trains profits tripled to £21 million while the UK bus division had profits of £71.2 million which was only up by £3.8 million. In June of this year Stagecoach took a 49% stake in the Virgin Rail Group for £158 million.

Rail

Railtrack are planning a £220 million rail freight link between Scotland and the Channel Tunnel. This could potentially remove 400,000 lorries off the roads each year. The government would contribute £150 million towards the project. The work is on top of the £2.2 billion upgrade of the West Coast Main Line being undertaken in conjunction with Virgin Trains. The work is expected to create several hundred jobs on top of the 6,000 expected from the upgrade. Railtrack has a target of tripling freight traffic within ten years. The investment in the specialised rolling stock will come from the freight operator English Welsh and Scottish Railways.

Railtrack saw its profits rise by 12% to £388 million, which was above analyst's expectations. The increase was helped by a larger disposal of property, a £14 million drop in provision of asset maintenance. Investment rose by 30% to £1.25 billion while this year's plans propose investment of £1.45 billion. The government has given Railtrack the green light to construct a high-speed rail link to the Channel Tunnel from St. Pancras at a cost of £7.7 billion. Railtrack will fund the first stage from the tunnel to Gravesend at a cost of £1.8 billion to be completed by 2003. 2007 should complete the second stage and Railtrack have an option to buy the completed second stage. London Continental Railways (LCR) will raise the funds for the project. The government's original

contribution has been reduced to between £140 million and £360 million (depending on Eurostar revenues), much lower than the expected figure of £700 million. The government, in another unprecedented move, agreed to guarantee £3.8 billion of debt for LCR that will allow LCR to raise a further £2 billion of debt. The government will receive 35% of LCR's pre-tax profit after 2020 and a 5-10% stake in Eurostar. The Channel Tunnel and the rail link will revert to government ownership in 2086.

First-Group is likely to face a subsidy clawback after failing to improve services on North Western Trains that had fallen to 'unacceptably low levels.' Greater Manchester Transport Authority (GMTA) is expected to sue the company for £60 million it paid for trains which GMTA claims have never run. Opraf could further penalise the company by recovering a £2 million bonus paid for operating performance. North Western Trains had cancelled 4% of trains in the Manchester area due to staff shortages. Stagecoach also face a similar problem after cancelling 2,000 trains in the South of England. It is likely however that their investment proposals to replace 94 'slam door' trains should see a negotiated settlement. In return for this investment they want their franchise extended. Last year Stagecoach were fined £1 million by Opraf and a further £1.5 million of voluntary compensation to passengers.

Air

July was this year's busiest month for BAA airports with only Gatwick failing to beat record numbers. Passenger numbers rose by 9.2% on last year to 11.2 million. The BA strike certainly reduced this figure but underlying growth was still more than 7%. North Atlantic traffic grew by 11.3%. The main increases in passenger numbers came from Edinburgh (11.6%) up to 457,600, Glasgow (9.3%) up to 750,300 and Heathrow (8.3%) up to 5.8 million. Traffic at Aberdeen Airport grew by only 4% resulting in 256,900 passengers.

Sea

There is an increasing risk that merchant shipping jobs will no longer be offered to British nationals as P&O, one of the world's major cargo carriers, consider replacing all their ratings with Filipino crews. There are real concerns for both long term sea faring jobs and safety. The merchant fleet carries 94% of the UK's imports and exports and contributes £4.2 billion to the balance of payments. Unlike most other nations the UK does not subsidise shipping. The transport white paper does consider that this may have to change for the merchant fleet to compete on an equal basis with other nations.

TOURISM

After several years of growth Scottish tourism faces a less certain year. The strength of sterling continues to deter overseas tourists and offer both potential English and Scottish visitors opportunities of cheaper holidays abroad. In addition, unseasonable weather, coupled with a range of other factors has been argued as exacerbating the slowing down in demand. This uncertain context underlies attempts to extend the traditional season, through a revised Autumn Gold campaign and increased marketing of a range of activity holidays. Concern as to the national trends has tended to obscure marked variations in occupancy and activity rates across the Scottish regions.

These trends were evident in results from the latest survey of Scottish tourism establishments, conducted by the Fraser of Allander Institute in co-operation with the Scottish Tourist Board, which revealed weaker than anticipated demand due to a combination of the high exchange rate and a poor summer.

For a further quarter the overall lack of tourist demand featured heavily as a factor most likely to limit activity during the current quarter and ranged from 57% of self catering respondents to 35% of large hotels. Only visitor attractions cited another factor more frequently, 42% cited weather while 10% cited lack of tourist demand. The high exchange rate was cited by slightly more than a quarter of large hotels.

None of the sectors expect any net increase in total demand during the current quarter. Only large hotels expect an increase in rest of UK demand whilst all expect the trend in demand from Scotland and overseas to continue declining.

Average capacity ranged from 68% in small/family run hotels to 80% in self-catering establishments. Large hotels were utilising 72% of available rooms while for bed & breakfasts the figure was slightly higher (74%). Visitor attractions reported a net fall of 35% in visitor numbers.

Large hotels

Confidence continued to decline, only 19% of hoteliers reported being more confident than in the first quarter while 37% indicated a lower level of

confidence. Respondents had forecast a slight net increase in total demand with demand from all areas, except abroad, rising. In actual fact the upward trend eased significantly to +2%, a consequence of reduced guests from overseas and Scotland and a weaker trend in rest of UK numbers. The trend in business trade increased marginally. Respondents are now more cautious in their expectations as to demand in the third quarter, slightly more than a third expect demand to increase however 39% expect a fall in demand (-3%). While rest of UK demand is forecast to remain upward a decline in guests from all other sources is anticipated.

Lack of tourist demand remained the most significant factor likely to limit activity. However, the high exchange rate figured more predominately, cited by 27% compared to only 7% during the second quarter of 1997.

Although average use of facilities rose from 55% in the first quarter to 72% it remained slightly lower than in the same period one year ago (75%).

Respondents continued to overestimate the rise in turnover, and the rate of increase in turnover is lower than in previous years. For the first two quarters of this year the net rise in costs has been greater than that of turnover, suggesting increased pressures on margins. For a further quarter respondents expect both turnover and costs to rise during the current quarter. Only 10% of respondents expect costs to fall while 41% expect them to increase. Again the majority expect to make no revision to the average daily room charge nevertheless a net of 19% expect to increase it.

The downward trend in employment ended and a net of 7% increased total employment. Respondents expect the trend in employment to remain upward during the current quarter. 45% of hoteliers reported increasing pay by an average of 5.4%, and there are now some signs of the rate of pay increases stabilising.

The percentage attempting to recruit rose (86%) compared to the first quarter but was slightly lower than in the comparable period of 1997. Recruitment activity, although widely directed, focussed mainly on manual and part time staff.

Family hotels

Business confidence remained depressed, compared to both the previous quarter and the same period one year ago, only 17% reported increased optimism while more than 40% were less confident.

The rise in demand was weaker than in the second quarters in previous years. The decline in confidence reflects the continued downturn in total demand in contrast to the upward trend forecast during the first quarter (a net of -27% compared to the anticipated net of +19%). Respondents had expected the increase in demand to be fuelled by an increase in guests from Scotland and rest of UK. In actual fact however, demand from all areas declined, most significantly guests from overseas. In each case less than 20% of respondents noted an increase in guests from Scotland, rest of UK or abroad.

Expectations for the third quarter are more depressed than in previous years, with more than 50% of respondents citing the weak levels of demand and 21% poor weather as the factors most likely to limit activity through the third quarter.

Average use of facilities rose compared to the previous quarter (52% to 68%) but remained lower than in the same period one year earlier.

The increase in costs was marginally less than respondents had expected. 56% reported increased and 4% reduced costs and the rate of increase is again expected to ease slightly during the current quarter.

More than 60% reported and 71% expect no change to total employment, despite this the trend in employment reversed unexpectedly and respondents expect the decline to continue.

Bed and breakfast establishments

As a consequence of poorer than expected demand, confidence amongst bed and breakfast respondents declined and at a greater rate than in the second quarter of 1997. Only 19% of respondents reported being more confident than in the first quarter while 38% were less confident. Compared to the same quarter one year earlier a net of 26% expressed a lower level of optimism.

Respondents had forecast that despite the continued decline in Scottish demand, total demand would increase fuelled by an increase in guests from overseas and abroad. In actual fact demand from all sources declined resulting in a net of -21%. Respondents are not optimistic about the next quarter and expect the decline to continue and at much the same rate, again as a result of demand from all areas falling.

Lack of tourist demand remained the most identified factor likely to limit activity and the percentage citing adverse weather was higher than a year ago.

Despite declining demand respondents reported utilising 74% of available capacity compared to 59% in quarter one, and one percentage point higher than a year ago.

Although 84% reported no change to total employment the trend declined and the trend is expected to continue to decline and at much the same rate.

Self catering establishments

As with other tourism sectors, confidence among self-catering respondents fell during the second quarter. Only 18% were more optimistic than in the first quarter while 12% were less confident than one year ago.

Once again expectations were not met and a net of 33% reported a decline in demand, a net of -2% had been forecast. The declining trends in demand from Scotland, rest of UK and abroad were more severe than forecast. In each case less than 15% reported increased demand from any area.

Respondents are not optimistic of much improvement in demand, only 14% expect an increase in bookings. Lack of demand was identified by 57% of respondents as most likely to limit activity, 14% cited weather while 15% cited capacity.

There was a significant increase in capacity use during the second quarter, 80% compared to 53% during the first quarter. It is however in line with, albeit slightly lower than, the second quarters of 1997 and 1996.

The trend in total employment was flat, however 76% reported no change in total employment and 82% expect to make no change in the current quarter.

Visitor attractions

Only 15% of respondents reported being more confident than in the first quarter or the same quarter of the previous year while more than 33% reported being less confident.

Respondents reported a net fall in the number of total visitors, 24% noted an increase but more than 50% reported a decrease. The fall in numbers resulted from declining visitor numbers from Scotland, rest of UK and abroad.

The decline in total visitors is forecast to continue although the rate of decline should ease slightly, once again resulting from a fall in visitor numbers from all areas. Despite the fall in numbers respondents did not cite low number of tourists as the factor most likely to affect visitor numbers, [illegible] cited bad weather while 31% cited other reasons.

Less than 50% of respondents noted either an increase in visitor numbers or a level trend while 53% cited a reduction (a net of -35%).

In line with expectations, costs, for a net of respondents continued to rise however turnover/admission income unexpectedly fell. Costs are expected to continue rising while turnover is expected to continue falling.