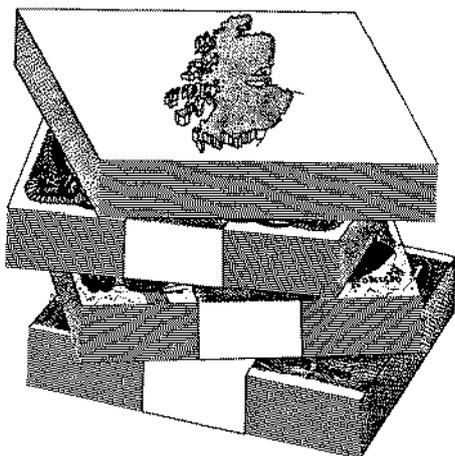

The Scottish Economy

Industrial Performance



The most recent Surveys were published towards the end of July and were conducted in the aftermath of the General Election and prior to the rise of 1% point in interest rates. The general conclusions of the two surveys are in consonance although there are differences of detail. Each re-affirms the trend of increased optimism which was evident in the previous surveys of 1987, with levels of demand recovering from the oil-industry-induced reverses of 1986.

Turning specifically to the SBS, rising sales and orders provided the background to the most optimistic short-term outlook for the Scottish economy since the Survey's inception. A balance of firms in all sectors reports increased confidence about the general business climate and the employment growth recorded among manufacturing, and retailing firms during the second quarter of the year is expected to continue over the 3 months to September.

BUSINESS SURVEYS

Between them, the **Scottish Business Survey** (SBS) and the CBI's Industrial Trends Survey provide a reasonably reliable guide to recent and current trends in the Scottish economy. Both Surveys are carried out on a quarterly basis with the results being derived from the responses of Chambers of Commerce and CBI members respectively. In addition to eliciting information from different sources the Surveys also differ to a degree in the questions which each asks and the analysis of the replies. For example, the CBI provides information on trends by size of firm while the SBS presents a geographical breakdown. However, the key difference is in the industrial coverage of the Surveys. Whereas the SBS covers firms in construction, wholesaling, retailing, financial institutions and manufacturing, the CBI Survey covers only the last of these.

In manufacturing a net 8% of firms were more optimistic than 3 months before-hand, with new orders and sales rising on balance by 24% and 34%, respectively. Sales and orders growth were strongest in the export and rest of the UK markets with the growth in domestic demand being markedly more modest. This would appear to indicate that producers have not (yet) been adversely affected by the appreciation of sterling over its late 1986 levels, and, secondly, that the recovery in Scotland's fortunes is currently being generated externally. The outlook for jobs is modestly encouraging with a net 7% of firms reporting an increase in employment although this is the outcome of declining male employment and increases in jobs for women. The prospects for the third quarter are, if anything, more optimistic, although it would be wise to remember that the projections of people in business have often been seen to be over-optimistic or pessimistic with the benefit of the next quarter's results. Both sales and new

orders are expected to grow among a balance of firms with the domestic demand component performing more strongly, although still less well than external demand. Belief that the recovery may be sustained, stems from the fact that firms have revised their investment intentions upwards overall, by 28% for plant and equipment and 18% for buildings. These figures would suggest that firms are sufficiently optimistic about the continued growth in demand to have undertaken investments which will, in some way, extend their available capacity.

With the exception of paper, printing and publishing, a balance of firms in each manufacturing sector reports an increase in optimism, varying from a net 3% in textiles, leather, clothing and footwear to a somewhat surprising net 28% in metal manufacture and metal goods. Apart from other engineering, all sectors expect both new orders and sales to rise in the 3 months to September with textiles etc and mechanical engineering being most bullish in this respect. The optimism detected among firms in metal manufacture, mechanical engineering and chemicals runs counter to the recent experience of these industries and it may be their past weakness which has led to them continuing to shed employees during the second quarter. The prospects for employment growth are greatest in electronics and electrical engineering and in textiles etc, two sectors which have been continually optimistic in recent surveys.

The renewed confidence of the construction industry detected in the April Survey has been repeated, with a balance of 13% of firms reporting an increase in optimism. As with manufacturing, the source of this optimism appears to be rising levels of demand with a net 32% of firms reporting a growth in private sector orders and a net 7% growth in other public sector orders. However, there has been no overall change in central government orders. This pattern is set to change during the third quarter with a revival in central government orders and only marginal growth in demand from the private sector. Respondents report a rise in employment among a balance of 9% of firms with significant rises and falls in manual and non-manual employment, respectively. It is expected that total employment will remain static over the 3 months to September.

In contrast to the recent pessimism in the sector, a balance of 25% of wholesalers reported increased optimism, in the July Survey. This is clearly the result of the substantial actual and anticipated growth in the volume of sales. However, a net 7% of firms saw employment fall in the second quarter with a balance of 13% expecting a further decline over the next 3 months. Retailers remain buoyant with a net 26% of respondents being more optimistic about the business climate. Again the source of this confidence is the dramatic growth in sales: overall, 31% of firms saw sales volumes increase in the 3 months to the end of June with a net 49% anticipating further sales growth.

Much of the growth in retail sales stems from the rapid growth of personal credit and the results from the financial institutions confirm that advances to the personal sector continue to grow apace, a balance of 87% of respondents reporting an increase. The level of corporate advances has also maintained its upward trend with the demand for working capital being particularly strong.

In geographical terms the July Survey clearly indicates that the Aberdeen area has not fully recovered from the shock of 1986. It may be that the adjustment processes which follow the decline in oil-related activity will continue to percolate through the local economy for some months to come. In contrast, the typically depressed West of Scotland appears to be enjoying relative health at present.

Primary

AGRICULTURE

On 30 June the European Council of Farm Ministers finally reached agreement on the price support measures for the year 1987/88.

For beef, the green pound is devalued by 7% whilst support prices will increase by 6.3%. For sheep, there are no changes,

pending a review by the EEC of the whole sheepmeat regime. The NFUS is apprehensive of a possible limitation of numbers eligible for the annual ewe premium, and of the imposition of ceilings on hill land compensatory amounts.

Support prices for milk are to be improved by 4.6%, and member states are authorised to introduce quota leasing arrangements. In the UK, the government has recently proposed measures which would reduce rather than increase the flexibility of arrangements for trading milk quotas.

Changes to the pig meat regime will reduce significantly the competitive advantage hitherto enjoyed in the UK market of Denmark and the Netherlands. For cereals, the overall effect of unchanging basic support prices together with the green pound change is that intervention values at 1 October 1987 will be 5.7% lower than they were one year previously. For oil seed rape the overall effect is a reduction in the intervention price of 16%.

In response to the European surpluses of traditional farm commodities, there are some signs of diversification efforts by Scottish farmers. A substantial investment has already been made in marine salmon farming, and Scottish producers are pressing for the establishment of an EC reference price. They claim that they do not wish to ban imports into Europe but to prevent "disruption" of the market by irregular supplies from third countries.

The EC and the SDA are together funding a research project which seeks to develop a home-grown cashmere wool industry by cross-breeding native Scottish goats with cashmere-producing goats from Iceland and New Zealand. At present, Scotland imports more than £50m worth of raw cashmere fibre which is transformed into expensive knitwear for export. This research project, to be carried out by the McAulay Land Use Research Institute, is arousing some interest amongst hard-pressed hill farmers.

The Scottish Agricultural Wages Board has proposed that there should be an increase

of 5% on the basic wage rate for all full-time general farm workers, with effect from 7 September 1987.

Controversy has arisen in the Highlands over the Nature Conservancy Council's proposal to ban further forest and afforestation on 1m acres of peat land in Caithness and Sutherland. The proposal has been severely criticised by the Highlands Regional Council and the Highlands and Islands Development Board who argue that without continued new forestry planting of between 240 and 360 thousand acres over the next 20 years, a potential 1,000 jobs in forest operations and another 1,000 in sawmilling and ancillary activities will be lost.

FISHING

According to the Department of Agriculture and Fisheries for Scotland (DAFS), the total value of fish landed by UK vessels at Scottish ports between January and April of 1987 was £79.417m, a rise of £16.741m (27%) over the corresponding period of 1986. The increased value of landings is the product of a drop in the volume of landings of 7,767 tonnes (6%) to 131,443 tonnes and an average price rise of 34%. These results continue the recent trend of stagnant or falling volumes and proportionately greater rises in prices.

Table 1 Fish landings by UK vessels at Scottish ports, January-April 1987

	Weight, tonnes	Value £m	Average price per tonne £
Total by UK			
vessels	131,443 (- 6)*	79.417 (+27)	604 (+34)
Demersal	79,855 (- 1)	60.523 (+25)	758 (+26)
Pelagic	41,520 (-19)	4,121 (-15)	99 (+ 5)
Shellfish	10,068 (+44)	14,773 (+59)	1,467 (+11)

* Figures in brackets represent the percentage change over the corresponding period of 1986.

Source: Department of Agriculture and Fisheries for Scotland.

Demersal species remain the most prominent of those landed at Scottish ports, accounting for 76% of value and 61% of weight. Actual landings declined slightly, by 1%, but with the 26% increase in average prices the value of landings was up by 25%. There has been a substantial reduction in the volume of pelagic landings compared with the first quarter of 1986. A total of 41,520 tonnes were landed between January and April, a fall of 19% over 1986. With an average price rise of 5% the value of landings declined by 15%. Shellfish have made significant advances, with landings up 44% in weight terms and 59% in value. As a result, shellfish now account for 8% of the weight and 19% of the value of landings by Scottish vessels, compared with 5% and 15%, respectively, in 1986.

Turning to the key Scottish species, Table 2 presents the main details. Most striking are the contrasting trends in mackerel and herring landings. The former have risen by 18% in weight and 110% in value while herring landings have declined by 95% in both volume and value terms. Whiting values have advanced by 88%, the product of a 59% growth in volume and a 19% price increase. Both cod and haddock values are up by 12% although with increased and decreased volumes, respectively.

There has been substantial opposition in the industry to the government's plan to levy dues on fishing vessels of more than 10 metres in length for the upkeep of lighthouses, buoys and beacons. The tax will not be levied on pleasure craft and industry representatives have argued that the services should be funded from general taxation. The general committee of the Highlands and Islands Fishermen's Association has formally recommended that their members should not pay the tax in protest at the government's decision. The government is also considering privatising the boat service of the marine detachment of the fisheries and enforcement section (DAFS). This is one option designed to cut £1 million from the operating costs of the service.

A series of pilot schemes will pave the way to a new skills' training structure in the fishing industry. The structure has been developed collaboratively by the Sea

Fish Industry Authority, Manpower Services Commission, fisheries colleges and other industry groups. Through a set of "open learning" modules, fishing industry workers will have the opportunity to tackle more than 30 subjects covering a range of relevant topics. Some pilot schemes will be run by colleges in Grampian Region.

Despite vociferous opposition from the local tourist industry, preliminary planning permission has been granted for the first fish farm on Loch Ness. Opponents argued that the sighting of a farm on the Loch would threaten the legend of the monster and thus reduce the area's attraction to tourists.

Table 2 Landings by UK vessels at Scottish ports of selected species, January-April 1987

	Weight, tonnes	Value £m	Average price per tonne £
Cod	13,540 (+ 8)*	12.925 (+12)	955 (+ 4)
Haddock	33,371 (- 18)	24,748 (+12)	742 (+37)
Whiting	13,585 (+ 59)	7,412 (+88)	546 (+19)
Mackerel	36,620 (+118)	3,846 (+110)	105 (- 4)
Herring	1,433 (-95)	0.140 (-95)	93 (+ 4)

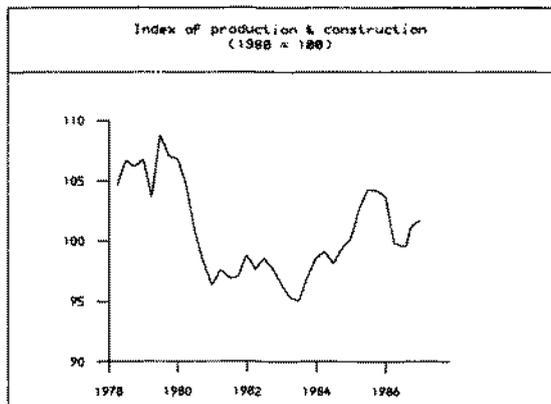
* Figures in brackets represent the percentage change over the corresponding period of 1986.

Source: Department of Agriculture and Fisheries for Scotland

Construction

New contracts by building contractors in Scotland totalled £340.09m in the first quarter of 1987, some 5.4% lower than the first quarter of 1986. As usual, this single figure masks a range of different performances within the industry. In the public sector there were two areas of significantly improved performance: housing at £28.96m (150% up on the corresponding 1986 quarter) and schools and colleges at £16.40m (up 300%). Despite these areas of improvement total

new public sector contracts fell by nearly 15% to £128.35m. As in the past, the largest fall occurred in the "miscellaneous" sector, the main constituent of which is the oil industry. Only £13.08m worth of new public orders were recorded in the three months to March, less than one quarter of the total in the first three months of 1986. This seems unlikely to improve until the oil price begins to revive.



Orders in the private sector totalled £211.74m, up 1.3% on 1986. Most areas within the private sector rose with the exception of private housebuilding which fell by 4.5% to £74.68. Figures from the National House-Building Council for the same period appear to confirm the suspicion that housebuilding in Scotland continues to lag behind that of England. The NHBC recorded 2,500 new private housing starts in Scotland from January to March, down from 3,000 in the first quarter of 1986. By contrast, the housebuilding boom continues in England; NHBC figures indicate a total of 46,700 private housing starts in Great Britain as a whole, fully 20% higher than the same period in 1986, and the highest first quarter total since 1972. If any further evidence were required of a "North-South divide" in the construction industry it is provided by the Government's index of construction. In the final quarter of 1986 the Scottish index stood at 89.6, the lowest fourth quarter recorded for 4 years. The UK index, however, rose 0.8 points in the quarter to 104.2 (1980=100). While the UK index has risen in every year since 1981, the Scottish index actually fell slightly in 1986 and is now fully

11.2 points below that for the UK, by far the largest gap recorded since the seasonally adjusted figures were rebased to 1980 levels.

This substantial - and widening - gap between Scottish and UK construction performance has not gone unnoticed within the industry. In May the Scottish Construction Industry Group - which comprises representatives from construction-related professions, contractors and trade unions - published a small booklet charting the long-run decline of UK construction, and showing how the industry in Scotland has failed to emerge from the recession as quickly as in England. Using mainly Government statistics the SCIG booklet illustrates that in Great Britain the total annual level of new orders in the construction sector had fallen to approximately 80% of its 1970 value. In Scotland, however, the fall has been more dramatic - to 55% of the 1970 level. SCIG argues that between 1970 and 1980 the decline in construction orders resulted mainly from a steady reduction in public expenditure. After 1980 the fall in public construction expenditure largely halted in England but not in Scotland, where the non-housing sector has continued to do badly. What is worse, argues SCIG, the rapid increase in private construction orders since 1982 so evident in England has not been so apparent in Scotland, with the result that Scotland's overall share of UK construction activity has been declining steadily. While deploring this situation, and warning that expenditure on the country's infrastructure is less than adequate, SCIG makes no recommendations as to what should be done to improve matters.

Conceivably some relief could be at hand from an unexpected source. The implications of a recent discussion paper by Professor Gordon Hughes of Edinburgh University* are that the introduction of the poll tax could indirectly stimulate private housebuilding in Scotland. His argument is based on the fact that since domestic rates are in effect a tax on housing they tend to influence the decision on whether to buy a house (and what size to buy). Since domestic rates are to be replaced by a poll tax which should not affect the house-buying decision, demand for houses will rise. Given that the supply of houses is virtually fixed in the short run, prices

will initially rise - and Professor Hughes estimates a rise of 23% in Scotland, more than twice the estimated rise in the South East of England. In the longer run the increase in demand should stimulate housebuilders to increase supply ie build more houses. If Professor Hughes' figures are correct in terms of the differential regional price impact of the poll tax, its introduction could serve to reduce the gap between the construction sectors in Scotland and England.

The cautiously optimistic note sounded in two previous editions of the **Scottish Business Survey** is repeated in the latest Survey. A balance of 32% of responding firms in the construction sector experienced increased private sector orders in the three months to June, confirming the expected trend of the April Survey. Although public sector contracts were sluggish from April to June, a balance of 12% of responding firms did anticipate an increase in orders from this source in the next quarter. One interesting feature of this quarter's **Survey** is the pattern of responses on employment. Previous Surveys have found that demand for non-manual workers was brighter than that for manual workers. However, this trend is reversed in the latest edition, with a balance of 12% of respondents indicating an increase in manual employment, while a balance of 27% experienced a **decline** in non-manual employment. Most interesting of all is the finding that 51% of responding construction firms had experienced difficulty in obtaining staff over the last three months, compared with 35% of respondents overall. Skilled manual workers proved to be the group in shortest supply in the construction sector, followed by managerial and technical workers, which may indicate a potentially worrying bottleneck if demand does pick up once again. However, the lack of skilled workers should not be overstressed in the short-run; only 12% of construction firms responding to the Survey mentioned a shortage of skilled labour as the main factor limiting output growth, while 80% mentioned lack of orders.

On the company front, the rehabilitation of FJC Lilley continues. In July the company disposed of a further four subsidiaries, two in Scotland and two in the US. Wilson Pipe Fittings has been sold to Dover Engineering, and Irvine

Spring Company has been sold to its management; total consideration is around £750,000. In America, Lilley has sold John W Cowper and the power division of Harrison Western, together accounting for about half of Lilley's total US turnover. These sell-offs mark another important step in Lilley's retrenchment to its traditional strengths, that of construction in the UK. The UK disposals have done much to reduce the company's borrowings, which stood at £57m at one point in 1986, and with the parallel announcement of new contracts worth over £20m, Lilley now looks to be in a much sounder position than it was a year ago.

Caledonian Paper, the Finnish-owned company, has been signing contracts for the construction of its new paper mill at Irvine. So far around £10m of new orders have been placed with Scottish companies.

*"Rates Reform and the Housing Market".

Energy

OIL AND GAS

The Royal Bank/Radio Scotland oil index for June was 117.5 (1980=100), a fall of 36.7 points from the May value. The June average daily production volume of 1.93mb was the lowest for over 5 years. The sharp fall in the North Sea oil production in June is attributed to the commencement of a particularly intensive summer maintenance programme, with Forties output being especially badly affected.

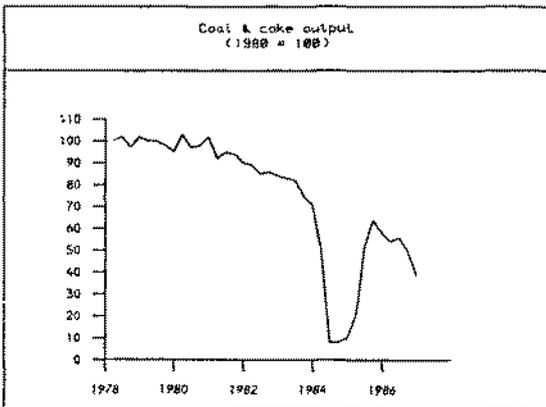
The OPEC meeting on 25 June was successful in extending the cartel's existing production and price agreements and this, combined with renewed fears over the continuity of Gulf supplies, led to a firming of crude oil prices in the world market. By early July, Brent crude was trading at between \$20 and \$21 per barrel, the highest price for over a year.

There are signs that the prospects of a period of relatively stable oil prices at

around \$20pb is leading to renewed exploration and development activity in UK waters. In May, 18 exploration rigs were drilling in the North Sea, 5 more than in February, and industry analysts were predicting a further significant rise in the number of rigs in operation over the summer. In July, Shell/Esso announced a major new development programme for the Kittiwake field. Costing \$350m, this is the first major new North Sea oilfield development to be announced since January 1986, and is expected to create 2,500 jobs in Scotland and the North East of England. With estimated reserves of 70mb, Kittiwake will commence production in 1991, and at its peak is expected to produce 36,000bpd. Interestingly, the development of Kittiwake only became economically viable when improved technology in platform design and construction allowed project costs to be reduced by 40% from initial estimates.

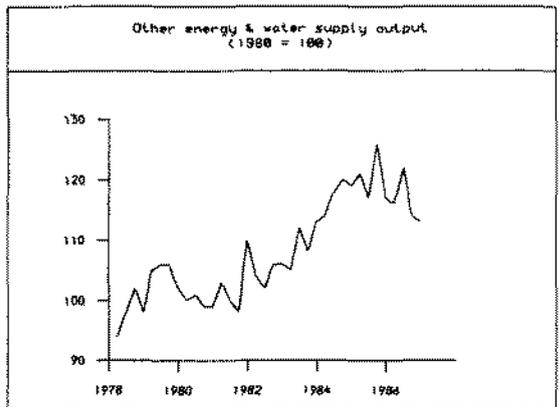
The Department of Energy's 'Brown Book' indicates that UK oil production in 1986 was 127m tonnes, a fall of 0.5m tonnes from the 1985 figure. The value of orders for offshore development fell by 35% to £2.2bn. Although the share of UK companies rose to a peak 82%, the value of orders received by the UK industry fell to £1.8bn from £2.7bn in 1985. The total number of exploration and appraisal wells started during the year was 113, 30% down on 1985.

COAL AND OTHER ENERGY



The index of production for coal and coke in Scotland fell by 22% in the fourth quarter of 1986. For the year as a whole output was 2% higher than in 1985, a year in which first quarter output was severely affected by the miners' strike. In the UK, however, output in 1986 rose to a level 18% higher than in the previous year.

The index for other energy and water supply in Scotland fell again in the fourth quarter by 1%. For 1986 as a whole the output of this sector was 3% lower than in 1985. The UK index, in contrast, fell by 6% between the third and fourth quarters of 1986 but for the year as a whole was 3% higher than in 1985.



The Scottish coalfield registered a trading profit in British Coal's annual accounts for 1985-87. The deep-mined section, however, continued to register heavy losses and it was only because of the profit contribution from opencast operations that the Scottish Area's position looked healthy. During the year British Coal continued to improve its performance in preparation for the possible privatisation of some or all of the industry by the early 1990s. Unit costs fell by 13% while productivity increased by 21%. Sir Robert Haslam, British Coal's chairman, has made it quite clear that the performance is not yet good enough, however. He has stated that production will be further concentrated on low cost faces, a policy which must, by implication, threaten the Ayrshire coalfield.

One Scottish pit which has completely turned around in performance terms is Seafield in Fife. Before, and just after, the miners' strike Seafield was the highest cost pit - in terms of cost per tonne of coal produced - in Scotland. It is now trading profitably and producing 4 tonnes per manshift from its single remaining face (the UK average is 3.6 tonnes per manshift). As a result, British Coal have agreed, in principle, to open another coalface at the pit, ostensibly to replace the face lost in a fire in January but in reality to come on stream as the existing face is worked out. It is expected that an extra 40 jobs will be created in this £80m development (taking the workforce to 740) but that it will also require agreement on six day production. At present the NUM have rejected the introduction of new working practices although it is known that the Scottish Area is likely to treat the issue with some flexibility. It is probable that if the new investment does not go ahead at Seafield, the pit will close within the next few years.

One pit definitely about to close is Polmaise in Stirlingshire. Development work has been going on at the mine for 4 years, latterly in an attempt to join-up the coal reserves at Polmaise with those in the Hirst seam and bring the output up at Longannet power station. British coal have decided that it would save around £3m per year if the drive were undertaken from the Longannet end, although why it took 18 months to find this out remains a mystery. The 112 jobs at the pit will be lost to the industry eventually but the miners will be offered relocation elsewhere in the coalfield.

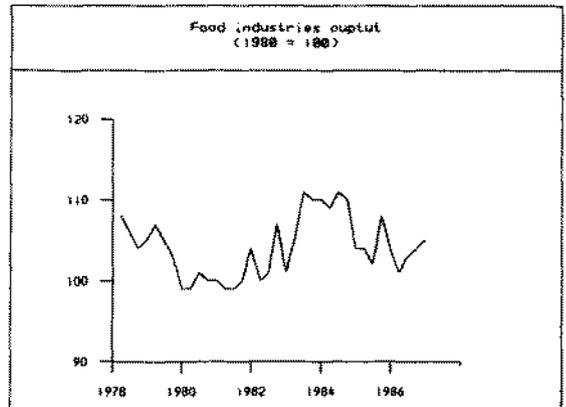
A major contract for Ayrshire opencast coal has been signed between British Coal and Caledonian Paper Company, the Finnish-owned pulp mill due to open in Irvine by 1990. The 5 year contract for 35,000 tonnes of coal per annum will add to the increased level of opencast coal produced by the industry - a level set to increase from 14m tonnes per annum to 18m tonnes over the next year.

Manufacturing

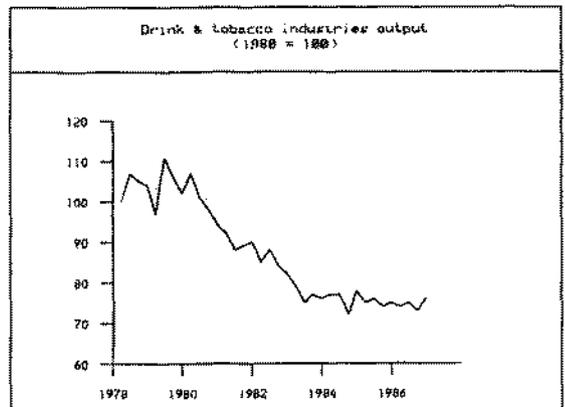
FOOD, DRINK AND TOBACCO

The index of production for the food industry moved up one point in the final quarter of 1986 to stand at 105.

However, the overall picture for 1986 is not encouraging. The index for the full year stands at 103, its lowest level since 1982; this contrasts with the food industry index for the UK which has risen in every year since 1981.



The drink and tobacco industry remains in the doldrums. The industry index for 1986 stood at 75 (1980=100), the same as 1985. The only slight degree of encouragement is that this is the first year in which the index has not fallen since 1979. The Scottish drink and tobacco index is now a full 21 points below that for the UK.



However, results from the latest **Scottish Business Survey** continue the optimistic note struck in the previous two editions. In the 3 months to June, a balance of 22%

of respondents experienced an increase in new orders, with a balance of 25% experiencing an increase in total sales. As with previous **Surveys** export orders appear to be providing the biggest boost to new orders; encouragingly over half the responding firms also anticipate increased new orders in the next 3 months, with few expecting a decline. Encouragingly, more firms hired new labour in the three months to June than reduced their labour force, a trend anticipated in the April Survey. This, too, is expected to continue in the next quarter. Two-thirds of respondents have experienced a fall in stocks of raw materials over the last quarter, and it is interesting to note that almost one-fifth of firms claimed that a lack of raw materials is the single most important factor limiting output.

Expansion plans among the large grocery groups continue to be the order of the day. As the May **Commentary** went to press the Argyll Group announced their "Safeway 1990" programme which involves the merging of the existing Presto and Safeway stores and the opening of at least 25 stores per year in the UK. Up to 6 new stores plus a distribution centre are expected to be opened in Scotland, creating up to 3,000 new jobs; a fairly high proportion of these will be part-time. No sooner had this announcement been made than Dee Corporation, owners of Gateway and Fine Fare, announced an even more ambitious expansion plan. A £100m development plan over 5 years is expected to create 3,000 full-time and 2,000 part-time jobs in Scotland, involving several new Gateway stores and the refurbishment of 8 existing Fine Fare stores which will subsequently trade under the Gateway name. Interestingly, the planned expansion in Scotland accounts for half of Dee's proposed UK investment programme, an indication of how competitive the packaged grocery market is becoming in Scotland. Major investment of this kind is bound to increase the competitive pressure on Scottish companies such as Wm Low, much smaller than companies like Argyll and Dee Corporation, but equally ambitious and expansion-minded.

Scottish & Newcastle have declared good figures for the 12 months to 3 May. Turnover rose 7% to £827.5m while pre-tax profits rose fully 20% to £90.3m, helped by the contribution of Home Brewery, acquired last August, and a good second

half performance by Thistle Hotels. The company's annual report confirms rumours that Hanson Trust did discuss the sale of Courage brewer's to S & N before the eventual sale to Elders IXL. This is made all the more piquant by the fact that the City has been full of rumours for several months that Elders were contemplating a bid for S & N, which would form a formidable brewing partnership with Courage. At the moment Elders is involved in plans for major internal reorganisation in Australia which seems to be taking up most of the group's senior executive time. Any such move would certainly be referred to the Monopolies and Mergers Commission (MMC), a prospect which may be enough to dampen any ardour which Elders may have for S & N; although the Commission cleared the 1985 bid by Elders for Allied-Lyons, the nine month delay caused by the referral led Elders to abandon the bid and buy Courage instead.

Not that S & N have any reason to feel well-disposed towards the MMC. The company's bid for regional brewer Matthew Brown narrowly failed in 1985, and the feeling has always been that the time delay induced by the MMC's deliberations helped Brown to marshal their defences successfully.

In addition, Mr Alick Rankin, S & N Chief Executive, is known to be less than happy at the prospect of a further MMC investigation into the tied-house system, which he feels has been subject to quite enough scrutiny since the first investigation in 1969. In fact it was that initial investigation (which was into the industry generally) which first identified the tied-house system, as in part responsible for a lack of free entry into the market and a lack of price competition. Despite some modifications to the system undertaken by the Brewers' Society, a recent careful analysis suggests that the main restrictions on competition were never removed,* and concentration in the industry has increased since that 1969 investigation. Government doubts about the tied-house system have never been entirely removed, and despite Mr Rankin's annoyance a further investigation probably has some merit.

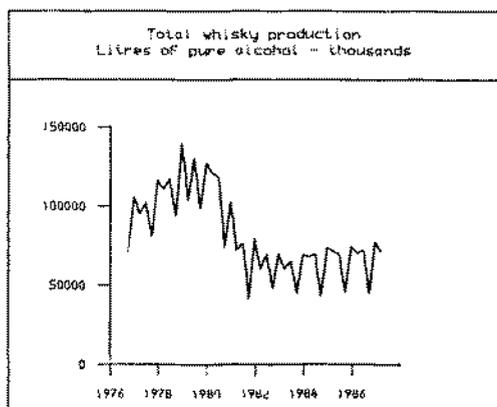
Another company showing improved performance is A G Barr, manufacturers of

the reputed hangover cure. Half-year profits to 25 April rose by nearly half to £2.36m while turnover rose by 15% to £19.4m. The rapid rise in profits was partly due to good sales of Irn Bru and Tizer, but three other factors were also present; the launch of branded confectionary, the sale of surplus empty plastic bottles, and an exceptional (unspecified) packaging order which ended in June.

English brewers Whitbread have announced a £20m investment programme in Scotland, but it has little to do with pubs or brewing. The investment will be concentrated in the company's restaurant activities, resulting in 20 new Beefeater restaurants by 1990 and an increase in the number of anglo-American Pizza Hut outlets.

*R W Shaw & P Simpson "The Monopolies Commission and the process of competition". Fiscal Studies, Vol 6, 1985.

WHISKY



Total production of Scotch whisky stood at 71.278m litres of pure alcohol (LPA) in the first quarter of 1987, 1.5% higher than the first quarter of 1986. The slight total increase comprises a 6.6% rise in malt whisky production to 29.9m LPA and a 1.8% fall in grain output to 41.3m LPA. Exports continue to be slightly lower than last year, however. Total exports fell by 1.1% over the first

five months of 1987 to 89.2m LPA; malt whisky exports fell by 3.6%, while blended exports, responsible for nearly nine-tenths of all overseas sales, fell by a more modest 1%.

At the time of writing no decision has been made by the General Agreement of Tariffs and Trade (GATT) on Japan's discriminatory tax and duty system relating to imported alcoholic drinks. The initial Japanese reforms discussed in the February **Commentary** have now been withdrawn; this prompted the European Community to refer the matter to GATT, under prompting from a variety of bodies representing European wines and spirits producers including the Scotch Whisky Association. The GATT decision is expected shortly, and if the finding is that Japan's policy is discriminatory then that country will be asked to come up with reforms which go further than those proposed last year. If no such agreement is forthcoming the EC countries may feel obliged to take retaliatory measures, a potentially serious move for the whisky industry since Japan is the third largest export market for Scotch whisky. Ideally the industry would like to see condemnation by GATT followed by a radical tax overhaul by the Japanese. But a more likely outcome seems to be at least some measure of criticism by GATT then new proposals by the Japanese which go some way to placating the European producers. In common with the other European industry bodies, the SWA must weigh up the possible rewards against the possible risks of sparking off a potentially damaging trade war. However, speculation along these lines is largely pointless until the GATT decision is known.

The prospect of another Guinness scandal was raised in July when the Department of Trade and Industry (DTI) announced that it was launching an inquiry into share dealings during the Arthur Bell takeover in 1985. Certain irregularities, possibly pointing to insider dealing in Bell's shares, apparently came to light during the DTI's inquiry into the subsequent takeover of Distillers by Guinness. Meanwhile the new Guinness management have had some success in their court battles against the company's former directors. Thomas Ward, the American lawyer who resigned from the board in the wake of the Distillers scandal, was ordered by the High Court to repay the

£5.2m payment made to him by Guinness for advice during the bid. This may take some time to effect since much of the payment went straight to the US taxman; nevertheless it represents a significant victory for the Guinness board.

Since Sir Norman Macfarlane took control of Guinness he has made clear his disquiet at the decision of the previous management to give the Dewar's brand to Schenley Industries, the brand's UK distributor, under what can only be described as controversial circumstances. For the last 3 months there have been suggestions that a way out of this impasse was for Guinness to buy Schenley from its owners Rapid American Corporation, thereby not only solving the problem of brand ownership but allowing Guinness more close control of an important US distributor; even a fee of £400 has been suggested. Neither Guinness nor Rapid American will confirm or deny that divestment talks have taken place, but it seems likely that the situation will not be resolved until legal ownership of Dewars is finally established.

When the Argyll Group announced that it was selling the companies in its food manufacturing division it was widely assumed that Paterson-Bronte, biscuit manufacturers from Livingston, would either be bought by another major food manufacturer or be subject to a management buy-out. Instead, the purchasers were Robertson & Baxter, the whisky blenders whose share structure and management is so closely intertwined with Highland Distillers. Indeed, so closely are the companies connected that the Monopolies and Mergers Commission investigation into Hiram Walker's 1980 bid for Highland made mention of the possible damage which could be done to any interruption of the symbiotic relationship between them. The move by R & B into the world of oatcakes is not as strange as it seems. The company now has a policy of moving into the market for quality branded food products, and in 1986 the first move was made in that area with the purchase of Arran Provisions which makes a range of high quality mustards, sauces and preserves. Arran Provisions are now set to double their workforce of 30 over the next 18 months, and plan to move to a new factory later in the year. The R & B strategy of diversification grew from the belief that future growth prospects in the

alcoholic drinks industry are limited, and the perception that quality branded foods require similar marketing expertise to that needed for quality blended whiskies. It seems unlikely that Paterson-Bronte will be the last acquisition made by R & B in this area.

When Allied-Lyons purchased a 51% stake in Hiram Walker last year some commentators wondered whether the object was more to help fight off the unwelcome bid from Elders IXL than to realise the ambition of becoming a major force in the international drinks industry. However, changes are clearly afoot at Hiram Walker with the announcement that around £100m of non-alcoholic drinks businesses are to be sold off together with the disposal of £50m of excess Canadian whisky and Cognac stocks. There is also a direct Scottish dimension to Allied's plans. As part of its purchase of Hiram Walker Allied obtained control of Ballantine's, which is currently the third best selling Scotch whisky in the world. The aim is to push Ballantines to number two by the end of the decade, displacing Grand Metropolitan's J & B Rare. Notice that there is no word of overseas plans for the brands of Allied's existing whisky firm, Wm Teacher. Teacher's Highland Cream has never been a strong seller outside the UK, and this lack of a top-selling worldwide blended whisky was one of the factors which prompted Allied's move for Hiram Walker.

METAL INDUSTRIES

Crude steel production in the European Community in the first half of 1987 declined by 2.1% against the same period in 1986. If one excludes the United Kingdom whose currency is relatively weaker against the dollar than the major European currencies and whose production pattern was distorted in 1986 by the Redcar blast furnace reline, the same comparison exhibits a decline of 4.6%. As explained in last quarter's **Commentary** the absolute strength of the pound against the dollar affords UK producers lower fuel and raw material costs in sterling terms whilst the weakness of the pound against European currencies results in these markets becoming more profitable in sterling terms. This phenomenon, in conjunction with greater operating

efficiency, saw the announcement in July of an after tax profit of £178m for BSC which is in line with the analysis presented in last quarter's **Commentary**. The broad contrast is one of a continental steel industry facing quantitatively stagnant markets characterised by weak prices and low or negative operating profits, whilst the UK producers face a buoyant home market with extremely good profit prospects for both direct and indirect steel exports to Europe.

This dichotomy of fortune looks likely to continue for the remainder of 1987 and the early part of 1988. EEC projections for the third quarter of 1987 posit a 5.5% fall in apparent steel consumption over the equivalent period in 1986 and a smaller decline of 3.7% in crude steel production as export markets recover marginally from last year. However, the situation in the UK is substantially brighter with increased production and deliveries both at home and to EEC and third country markets. Much of this business is at margins which suggests that, in November, BSC will announce increased profits for the half year. Its main continental rivals will record losses for both the first half of 1987 and for the year as a whole. Projections for 1988 depend critically on the relative prices of the dollar, pound and deutschmark and on the organisational arrangements for steel markets which emerge from the meeting of Industry Ministers scheduled for 21 September.

At this meeting the EEC will present Industry Ministers with a detailed plan for bringing European steel production into line with demand by 1990 at levels of profitability which ensure sufficient earnings to finance investments in cost reducing processes and obviate the need for state aid and subsidy. In addition, the Commission envisages a lesser degree of protection from third country imports excepting cases where steel products are being dumped onto European markets at prices below the real cost of production. Thus by the end of 1990 there is a desire to see Community producers in shape to face fair competition from both internal and external concerns. This is an extremely tall order. In recent months EEC Commissioners have become increasingly pessimistic about the medium-term outlook for the industry and have increased their

estimates of current excess capacity from 22 to 30 million tonnes per annum. This latter figure is consistent with low demand projections contained in the General Objective for Steel 1990 and subsequent update of October 1986. In reaching this conclusion the Commission stresses four factors. Firstly, it is grounded on a view that substitution by other materials will reduce specific consumption of steel by 2% per annum. Secondly, for most European producers third country export markets will continue to be difficult because of the activities of lower cost competitors such as South Korea and Taiwan and continued protection of lucrative US markets which considerably limits the access of European steelmakers. Thirdly, the relatively high margins for importers in EEC markets will encourage third countries to increase deliveries placing pressure on prices. The diversion of steel from protected markets such as the US contributes significantly to the broad conclusion that continental markets will become progressively more difficult for all but the most efficient suppliers. Fourthly, the weak dollar which is argued to persist over the period makes export markets attractive to US steelmakers and there is some initial evidence that US steel production and exports are indeed responding in this manner. This will put further pressure on prices and margins faced by EEC producers in third markets and contribute to slow growth in Community exports.

Thus, for these reasons the EEC has moved its projection into line with the most pessimistic scenario outlined in its various strategy documents. It should be noted that this revision took place at a time when continental producers posted a series of larger than expected losses and when the objective circumstances of the industry appeared to change little from a few months earlier when excess capacity was projected to be between 22 and 24 million tonnes per annum. There is a suspicion in the industry that the Commission were rattled by the losses recorded in this period and that the new estimates may be the result of an over-reaction to the admittedly poor performance of enterprises which they had deemed to be viable as late as early 1986. Secondly, these revisions took place against the backdrop of the Eurofer exercise which was uncovering modest offerings of capacity reductions on the part of producers especially in the troubled flat products sector.

However, the OECD Steel Committee estimate that world surplus capacity will reach 180 million tonnes per annum by 1990, of which area 75% is accounted for by the OECD countries. In addition final consumption is projected to fall by 6.1% in the OECD areas and capacity increases in the rest of the world more than match expected advances in steel consumption. Thus, although Commissioner Narjes may be guilty of releasing the message at the most politically opportune moment, it is not our view that the dire outlook for the European steel industry has been exaggerated to any significant extent. It is entirely possible that the reverse is the case.

The EEC plan will therefore seek to eliminate 30mt of excess capacity over the period 1988-1990. The mechanism for achieving this is an extension of that proposed by the Eurofer group of steel producers. The Eurofer initiative involved the identification of capacity which producers were willing to close either with or without strings. The production quotas attached to this capacity were to be sold to other producers who would expand output. Unfortunately, Eurofer steelmakers failed to identify sufficient cuts in flat products and heavy sections where there were many producers willing to buy quotas but relatively few sellers. The new proposal supplements this procedure with additional closure premiums made to producers who both close surplus capacity and sell production quotas. These premiums will be financed from a fund generated by a system of output levies. This proposed levy has provoked considerable controversy and opposition. It is envisaged that 70% of the fund will be allocated to closure incentives whilst the remainder will contribute to a larger effort to alleviate the social and regional consequences of a projected reduction in steel industry employment of 80,000 over the period of the plan. Closure premiums will not be paid to firms which eliminate capacity but allocate the underlying quotas to other production lines because it is recognised that significant operating gains may be achieved from higher utilisation rates. These are likely to be considerably greater than the gains accruing from the sales of quotas. Thus the intention is to prevent the levies paid by producers from contributing to the modernisation costs of their competitors. However, premiums paid to firms who scrap plant and

sell quotas would appear to be available to modernise the remainder of the business. These could result in distortions emerging in non-regulated product markets or could be used to improve the technical performance of production lines in quota restricted sectors in anticipation of subsequent deregulation.

The quota system itself is set for an overhaul with several categories of products removed completely. It is anticipated that profitable concerns will be granted additional quotas and that the reference dates for the calculation of quotas reflect production levels more recent than those underpinning the present arrangements. The Commission itself may purchase and cancel quotas in order to stabilise prices by restricting supply relative to demand. The EEC intend to monitor the progress of the restructuring efforts and to seek agreement with individual firms on programmes of capacity reductions. Indeed, the first survey of intentions is proposed to be completed by consultants and presented to the Commission by 30 November which suggests that all European steelmakers, including BSC, are at this time examining their plant configurations and future operating strategies. If the carrot of closure incentives fails to summon forth sufficient proposals for abandoning capacity then the EEC will end the quota system at the end of 1988 and usher in the "big bang" which the producers and their governments have fought skillfully to avoid. It remains to be seen whether the threat of this is sufficiently great to ensure the emergence of a phased transition to deregulated markets for strip and plate.

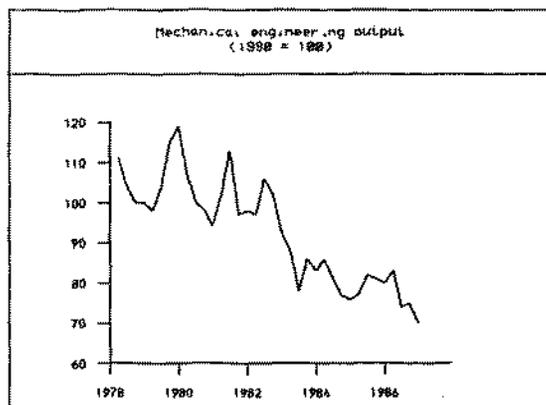
The exact details of this proposal have yet to become available to those outside the negotiations and indeed substantial revisions may emerge after the September meeting of the Industry Ministers. Thus, how it will finally hang together and the consequent dynamic which it will impart upon Scottish, UK and Community steel production can only be the subject of speculation. Clearly BSC corporate planners may require to grapple with the vexed questions of whether an operation based on 5 integrated plants can be sustained over this period or whether 4 wide hot strip mills can be justified to EEC regulators. There are options

available to the Corporation to rationalise strip and plate production all of which have been alluded to in previous **Commentaries**. It must be established immediately after exact details of the revised system become available, the extent to which there is an incentive or requirement to pursue such measures. Fortunately, BSC is at present one of the most competitive and profitable steel concerns in Europe or elsewhere and there remains a strong argument that it is others and not BSC who require further painful surgery. If the new quota regime is intended to simulate market responses then BSC should expand relative to other producers and progressively increase its market share and capacity utilisation. It is to be hoped that the government can help secure the circumstances in which BSC's improved performance is reflected in EEC assessments of its future size and that it will abstain from setting BSC unrealistic financial targets in the new transitional period in order to facilitate an unnecessary denationalisation. The UK steel industry is on the mend but further patience is required on the part of government and, most importantly, on the part of BSC executives. We will return to these questions in greater detail in the next **Commentary** when the outcome of the Industry Ministers' gathering is known with certainty.

MECHANICAL ENGINEERING

The fourth quarter of 1986 saw a further fall in the Index of Production of the Scottish mechanical engineering industry, from 75 in the third quarter to 70. This represents a decrease of some 12.5% during the year to leave the series at its lowest ever point. Assuming that the fourth quarter figure is correct, there is every reason to expect yet another fall when the results for the first quarter of 1987 are published since this will incorporate some of the closures and redundancies of the earlier part of this year. However, there are some preliminary indications that the short-term prospects for the industry have improved. According to July's **Scottish Business Survey**, a balance of 16% of firms is more optimistic about the general business situation than was the case three months ago. Companies report that the trends in both sales and new orders are upwards although employment continues to fall. Support for this brighter outlook is provided by the results of a survey of UK mechanical engineering firms carried out by **The**

Engineer magazine which found that a net 27% of companies were more optimistic in May than 3 months before. This is the second successive survey by the magazine which has detected growing confidence in the sector. It would be premature to greet these surveys as indicators of the recovery of the industry in Scotland. Nevertheless, the last quarter has been the least traumatic for Scottish mechanical engineering for some time, with no major redundancy or closure announcements.



In mid-July, Babcock International was the subject of a "merger" bid with FKI Electrical, a relatively small but fast-growing Yorkshire-based concern. Babcock became the subject of takeover speculation in 1986 when the Rainbow Corporation of New Zealand took a 5% stake in the company. More recently the cash-rich GEC was thought a possible predator. A less likely partner for Babcock in the engineering world than FKI it would be difficult to find. From fairly humble beginnings - making parking meters - the company has grown strongly if not spectacularly in recent years. It has specialised in taking over ailing concerns and turning them around with a keen eye to maximising profit margins. Its turnover in the year to April 1987 was £83.5 compared with Babcock's £1,217.6m. Clearly a case of gnat swalling something a bit bigger. Just as Lord King, wearing his British Airways Chairman's hat had struggled to convince the world that his company had merged with British Caledonian, so too, as Chairman of Babcock, he asked the industry to suspend its disbelief and accept the FKI approach as a merger. If it goes ahead, this is a

takeover by FKI. The new group will be known as FKI Babcock with Lord King as Chairman and Mr Tony Gartland of FKI as Chief Executive. Scotland's interest is in Babcock Energy with plants at Renfrew and Dumbarton employing some 1,860 people. With the power station market entering an expansionary phase, there can be little question that Babcock Energy is extremely well-placed to harvest the benefits of its recent investments. However, Lord King has quite pointedly not ruled out the prospect of the energy division being disposed by the new group. Indeed, Babcock Energy would sit uneasily with FKI's typical objectives. First, the substantial costs of re-investment have not yet begun to earn profits. Secondly, the power station requires regular and substantial investment over a very long product cycle. Both of these factors appear to be alien to FKI.

Prior to the FKI takeover bid the energy division had experienced a strike of hourly-paid workers during May. This was provoked by management's decision to employ four quality control workers on a contract basis while other employees were being made redundant. More positively, a further contract for Sizewell B has been won. This involves the automated inspection of welds on the reactor pressure vessel. Along with the previous contract to inspect forgings on the vessel, the new contract will secure some 20 jobs in the non-destructive testing department of the Babcock Research Centre at Renfrew. As part of the management consortium of the Royal Naval Dockyard at Rosyth, the company is likely to be invited to tender for an £8m contract to modernise the Phalanx anti-missile system.

As expected, the Howden Group's results for the 12 months to 30 April reflect the company's troubles during the year. Turnover was down to £152.3m (from £224m in 1985-86) and profits earned on this activity followed, at £7.94m (£11.7m). However, exceptional provisions of £7.8m reduced this figure to only £142,000. When a tax credit and the costs of eliminating certain elements of the business are taken into account a final loss of £1.28m was reported. Of the exceptional provisions, £6.7m represents the writing-off of losses at the troubled California wind park. This venture has now reduced profits by £13.2m since a further £6.5 has been offset against

previously deferred profits. Evidently, many of these charges on profits are unlikely to be repeated in the future since they relate either to the wind-park or to the restructuring of the company. In consequence, the firm is moderately confident about its prospects for the future. It has received a £1.5m order from Sweden for a 750kw wind turbine of the type pioneered in California and already ordered for Shetland. The machine is to be commissioned in Gothenburg by mid-1988 and is important in two respects. First, it represents some of the first returns to Howden's £50m investment in wind power generation. Secondly, Sweden is committed to phasing out nuclear power by the end of the century and successful delivery and operation of this machine may open up a potentially rich market for the Group. The successful tunneling division has already won a £10m order for two tunnel-boring machines for the Channel Tunnel. A further 4 similar machines will be required and the company is hopeful of securing these orders. However, failure to do so may call into question the long-standing 'no redundancy' agreement.

Oil-related activity has been patchy in the wake of the downturn during 1986. UIE at Clydebank is in serious trouble, the yard's workforce having been further reduced in recent months, while McDermott at Ardesier announced 70 redundancies in May. More positively, Shell and Esso have announced that they will go ahead with the development of the Kittiwake oilfield at a cost of some £350m. The project will include a 6,000 tonnes jacket order worth £40m with work starting in 1989. Highland Fabricators and McDermott will be the most likely contractors for this job. Hall Russell of Aberdeen has won the contract to re-furbish and upgrade a former Amerada Hess floating production vessel. The vessel is currently undergoing initial conversion at Highland Fabricators.

As part of the annual round of pay and conditions negotiations, Weir Pumps has reached an agreement under which the workers will be responsible for inspecting their own work for quality. This is the final step in the process of introducing flexible working practices and initial results of this scheme show that the amount of re-work needed in the company's production cells has been cut by half.

The company has also begun moving to a version of the just-in-time process and this has cut by half the amount of work-in-progress on the shop-floor. In June it was announced that the Group had landed a contract to test the cooling pumps for Sizewell B prior to delivery, however, the significance of the order lies in the fact that Weir can now compete for testing work from other countries building PWRs.

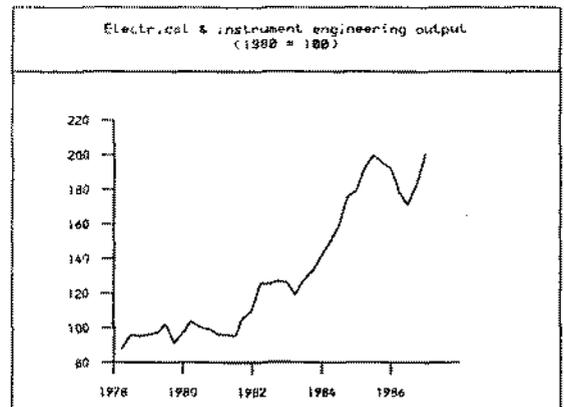
Turning to more general company news, Cummins has commenced production of its 10 litre engine for railcars at its Shotts plant. The company sees major opportunities in the European locomotive and railcar markets in the near future and wishes to exploit these. Mining equipment manufacturer Anderson Strathclyde has cut 50 jobs at its Glenrothes site due to the downturn in the coal mining industry. Paisley-based Eadie Brothers, the Manufacturer of textile machinery accessories and components, has been bought by Kanai Juyo Koguo of Japan for £2.35m. There is said to be no danger to the 94 jobs in the town and the new group will be a dominant force in the market. J H Carruthers of East Kilbride has won an order worth £1.364m from Caledonian Paper for 11 cranes at its new plant at Irvine. The cranes are scheduled to be delivered in February 1988 and to be commissioned in April. International Twist Drill (ITD) of Peterhead has bought Morse Tool of New Bedford, Massachusetts from Lambert Consolidated Industries for \$8m. ITD was the subject of a buy-in two years ago and now has an annual turnover of £10m and employs over 400 people in Scotland, England and the Netherlands. NEI Feebles is to make 160 people redundant from its Edinburgh plant.

Hopes of retaining even a token manufacturing facility at the Caterpillar plant in Uddingston have all but disappeared. The episode earned little attention during the General Election campaign and has been largely ignored since then; and the working party which is seeking an alternative operator for the factory is fast running out of time. Meanwhile, the company announced improved results for the second quarter of 1987.

Training continues to be a divisive issue within the industry. The large companies which wish to see the demise of the EITB,

or at least its diminution, have renewed their attack via an article by Ford UK's senior training manager. This makes clear the group's view that both the MSC and the EITB exaggerate the problem of skill shortages. The companies claim to represent more than one third of the workers covered by the Board. Following its period of consultation about its future activities, the Board has, provisionally, opted for the compromise position of tightening-up the levy-exemption rules but making no decision about fundamental changes in its role. The final decision will be taken in October.

ELECTRONICS



The Scottish index of production for electrical and instrument engineering reached a new high in the fourth quarter of 1986. It topped the 200 mark, first recorded in the second quarter of 1985, and was reported at 201, 18 points (10%) up on the previous quarter. Despite this improvement the year-on-year index measuring 1986 against 1985 fell by 6% because of the poor performance in the first three quarters of 1986 (following the semiconductor slump).

More recent information about business optimism in the electronics sector indicates that the production index for 1987 will reach new heights. The last three **Scottish Business Surveys** have shown business optimism in the sector to be running ahead strongly. The July survey

also showed new orders increasing in a balance of 36% of firms responding, representing a substantial change from April when, on balance, no growth in actual new orders was recorded. Employment in the industry increased in 43% of firms over the last three months while it fell in only 12%. On balance, 45% of firms expect to take on more workers in the next three months and, pleasingly, predictions are that this increase will not be confined to female workers.

Perhaps the most significant result from the **Survey** is the response to the question concerning investment intentions. 38% of respondents had revised upwards their investment intentions for plant and equipment (only 1% had revised these downwards) and 32% revised upwards their intentions for buildings upwards (with 1% revising downwards again). These are by far the strongest suggestions that investment is recovering since 1985. In the midst of this industry optimism more good news in the form of new ventures and expansions was announced recently. The first Scottish-Japanese joint venture is set to come to Cumbernauld in the near future. The tie-up, between Hinari (of the UK) and Shinton, will result in a video cassette recorder manufacturing operation employing around 250. Initially 50 workers will be taken on in the £4m venture.

Indeed, Japanese firms figured prominently in the news elsewhere. OKI Electric Industry is to set-up a test and assembly plant for printers in the old Burroughs factory at Cumbernauld. 340 jobs will be created and production will be geared towards both the UK and European markets. Another cassette firm, Mitsubishi, is expanding its Livingston operation with the creation of 200 new jobs and NEC semiconductors, also sited in Livingston, is accelerating the introduction of its 1 megabit chip line by 6 months. A further 100 employees will be added to the NEC workforce with this development.

This activity by Japanese firms, to a limited extent, confirms the view expressed in the **May Commentary** that the strength of the yen and the trade disputes centring on Japan's reluctance to open its markets, are accelerating Japanese

investment in overseas ventures.

Offsetting job gains and losses were the result of two other recent announcements. Prestwick Holdings, an indigenous firm manufacturing printed circuit boards, made 60 people redundant from its workforce of 440. This follows two bad trading years for the company. However, BBN Laboratoires Ltd announced the setting up of a research and development operation at Riccarton Research park in Edinburgh. The £500,000 investment will result in jobs for 60 engineers and scientists. The "quality" of these job gains would appear to be higher than the Prestwick job losses, and it is this type of employment that the Scottish economy badly needs. Nevertheless, this provides little compensation for the redundant Ayrshire workers.

An element of concern should be voiced over the short-term future of one of Scotland's largest electronics sectors - defence. Over 25% of employment in the Scottish industry is involved in defence and avionics work and, while Ferranti's Scottish defence operation performed very well last year (contributing over 50% of the firm's profits), indications are that government expenditures, both domestic and foreign, will be less buoyant than in the recent past. Thorn-EMI, Plessey, Marconi and Racal have, between them, shed over 1,800 workers in the last three months. A fall in spending in Middle East defence markets has been pinpointed as the major contributory factor but that may just be the tip of the iceberg. For the first time in over ten years there is set to be a fall in defence electronics spending in **cash terms** in 1987-88. The budget for that year is planned to be £2.44bn, £60m less than in 1986-87. The Ministry of Defence's push for greater production efficiency has not yet resulted in any Scottish job losses (even though Massey, Marconi and Racal have substantial Scottish operations) but it should surprise no-one if industry growth in this sector is severely curtailed over the next year with, perhaps, some consequent job losses.

TRANSPORT EQUIPMENT

The news, in late July, that British Shipbuilders had suffered losses for the year 1986-87 came as little surprise.

The fact that the losses were as high as £148m, £11m more than in 1985-86, is somewhat disturbing. In 1985-86 losses were running at approximately £14,000 per employee per annum. This has now risen to around £20,000 per employee per annum. It should be obvious that losses of this magnitude in the public sector will not be sustainable for long. Fortunately, the outlook for 1987-88 does appear to be marginally brighter.

One of the main reasons stated for the poor performance of British Shipbuilders was the under-utilisation of labour and non-recovery of overheads. In other words, there was not enough work during the year to support the levels of manpower and facilities left in this much curtailed industry. In the past few years shortages of work have been met with further reductions in capacity and the workforce, however, it is arguable that BS have contracted to the limit. Only Govan, Appledore-Ferguson and Sunderland Shipbuilders are left as shipbuilding operations within the company ie five sites from Devon (Appledore) in the south to Glasgow in the north. (Sunderland Shipbuilders includes the old Austin-Pickersgill yard). With so few yards to choose from the type of order sought by BS is necessarily becoming more limited and, as mentioned in the May **Commentary**, it is to the higher quality, higher price ends of the market that the company is now looking. Coupled with this strategy is the concentration on winning ferry and cruise liner orders - areas where Govan and Fergusons have been successful in the recent past.

In world shipbuilding terms the UK is now a bit-part player. The table shows world order books as of the first quarter of 1987.

When an upturn in shipbuilding activity comes, and industry analysts predict that this will not be before the early 1990s, the UK will be in no position to pick-up a large volume of new orders. It is therefore sensible for the UK to concentrate on finding a niche in the market rather than spreading the design and development net too wide.

Country	Total orders million (gross tons)
Japan	4.94
South Korea	4.46
Yugoslavia	1.21
Italy	1.08
Poland	0.98
Brazil	0.86
China	0.69
West Germany	0.62
Denmark	0.61
Taiwan	0.61
East Germany	0.54
India	0.48
Finland	0.45
Spain	0.38
France	0.28
UK	0.26
Other	2.14
Total	20.59

Source: Lloyds' Register of Shipping

Govan shipyard was singled out in the BS accounts as a major contributor to the losses. However, with its newly won contract for three Chinese containerships, due to begin in October, the next two years should be much more healthy. Guarantees of employment for the yard's workforce until 1989 will not stop management searching for further orders. They well know that the 1989-91 period might be the toughest of all in terms of winning contracts as the already cut-throat worldwide competition intensifies.

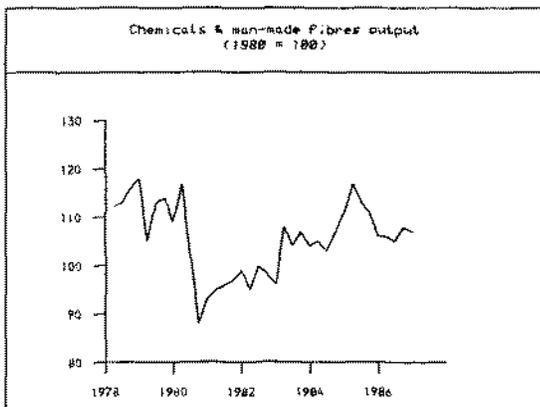
One order which would almost certainly guarantee Govan's existence into the next decade would be the rumoured £200m contract for a 75,000 tonne luxury liner. The Institute of Production Engineering is heading up a group which claims the contract will bring 25,000 new jobs to depressed areas in the UK. While claims about this number of jobs appear dubious and some of the altruistic claims for the consortium difficult to believe, the placing of such an order would guarantee employment at the successful yard for 4 to 5 years.

In other Scottish shipbuilding operations, news over the last 3 months has been mixed. The Port Glasgow operation of Appledore-Ferguson won an £8m contract to build a ferry to serve the Western Isles and a variety of small, short-term contracts have been placed with the Hall

Russell shipyard in Aberdeen which has led to laid-off workers being re-employed. However, the Ministry of Defence contract, said to be worth £10m, for three small craft has not yet been finalised with the Scott-Lithgow yard. Hall-Russell will undoubtedly be pushing for inclusion in the bidding for this contract and if past records are anything to go by, are likely to be better placed than Scott-Lithgow to win it.

One other famous Clyde yard, John Brown (now trading as UIE), announced 200 redundancies in June. This leaves 9 skilled men at the module building yard and the prospect of complete closure in the near future.

CHEMICALS AND MAN-MADE FIBRES



The latest Scottish index of industrial production figures reveal that over the final quarter of 1986 output in the chemicals and man-made fibres sector fell by 1% to stand at 107 (1980 = 100). Furthermore, when the 4 quarters to December 1986 are compared to the four quarters a year previously output has fallen by 5%. These figures confirm a continuation in the downward trend in output which has been evident since the first quarter of 1985 when the index peaked at 117. In contrast, the UK index stood at 124 at the end of 1986 registering a 3% increase over the final quarter and a 1% rise over the year.

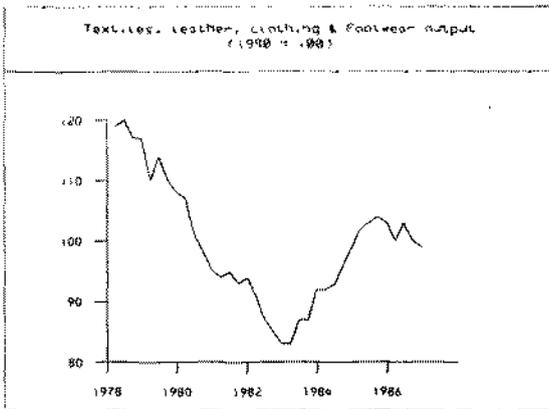
Despite these figures, the July Scottish Business Survey provides some grounds for expecting some improvement in this sector.

A balance of 20% of respondents were more optimistic about the general business situation in their industry than they had been 3 months previously and this follows substantial balances of increased optimism in the January and April Surveys. Indeed, there is some confirmation that this was not misplaced as a balance of 75% of respondents report an upward trend in the total volume of new orders received in the 3 months to July, whilst a balance of 39% report above average sales over the same period. These trends are expected to continue in the three months to October 1987, with balances of 34% and 61% expecting above average new orders and sales respectively. However, these trends are not expected to be reflected in increased employment opportunities in the industry. For the preceding 3 months a balance of 40% of respondents report a downward trend in employment whilst a balance of 38% expect such a trend in the coming period. As pointed out in the January **Commentary**, this dichotomy between expected output growth and employment decline may, in part, be explained by responses to the question on investment intentions. There is some evidence of an upward revision of intended investment in plant and equipment with the aim of increasing efficiency. It is possible that firms in the industry view increased efficiency and labour-saving capital investment as moving hand-in-hand. Capacity utilisation is at a very low level and the major constraint on output is a deficiency in demand.

In June, the BOC group announced that it is to expand its liquid gas production and distribution facilities in Scotland. It intends to operate a new liquifier plant at Motherwell with a total investment of around £10 million. The plant will have an output of 600 tonnes of liquid and nitrogen per day, representing a 4-fold increase in BOC's capacity in Scotland. No details of the employment implications are available as yet.

Low and Bonar, the Dundee-based group, made further acquisitions in June. They agreed to pay £4.5 million for the Dutch company Fusion Kunststoffen and around £4 million for a 50% holding in the German company Rhein-Conti Kunststoff. The latter acquisition means that the group now wholly owns the German company. Both these companies specialise in the production of large plastic mouldings.

TEXTILES, LEATHER, CLOTHING & FOOTWEAR



The official index of industrial production for the textiles sector in Scotland declined by a single percentage point from the third to the fourth quarter of 1986. 1986 as a whole was a stagnant year for the industry in Scotland. While output in the sector fell by three percentage points between 1985 and 1986 in Scotland, over the same period the comparable index for the United Kingdom showed an increase of one per cent.

Responses to the **Scottish Business Survey** from thirty seven firms engaged in the textile industry showed that there was no change in the state of business confidence as compared to three months previously. However, as before, the figure for Scotland as a whole concealed a sharp geographical divide: respondent firms who were members of the Glasgow Chamber of Commerce were more optimistic than their counterparts in the rest of Scotland. A balance of 44% of respondents reported that the volume of their new orders had increased over the past three months, while an even more significant balance of almost 70% expected the volume of new orders in the next three months to increase.

While the balance of respondents reporting an upward trend in employment was 25%, it may be noteworthy that these expectations related almost entirely to increases in female employment. Trends in male employment appear to be quite flat.

However, a balance of 40% of respondents had revised their investment intentions upwards compared to the similar survey three months ago, with twice as many companies reporting that the most important reason behind their investment decision was cost-cutting rather than capacity-expanding.

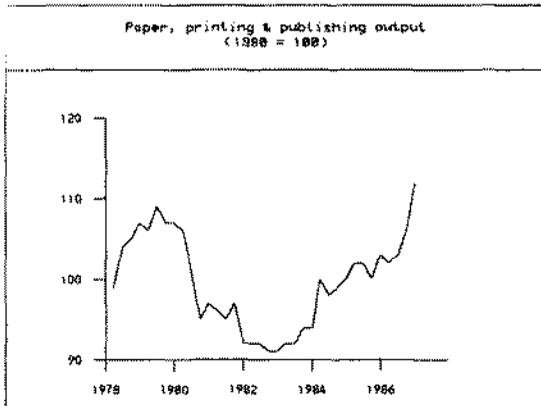
Four years ago the Scottish management of Babygro Holdings bought the company from its US parent. Last month, the company achieved a full Stock Market listing, which valued it at £11.6 million. It now employs 1,200 in factories in Kirkcaldy, Cowdenbeath and Methil, together with others in Dublin. About 80% of its output is now sold under own-label to the large multiple retailers, such as Marks & Spencer, BHS, Tesco and Mothercare.

There was bad news in June with the closure of three subsidiary companies of Dawson International in Coatbridge, Irvine and Alva. More than 900 jobs are estimated to have been lost, mainly as the result of foreign competition. However, the Dawson Group as a whole managed to push its full-year pre-tax profits up 11% from £42.1 million to £46.7 million, despite the loss of trade in its quality knitwear occasioned by the fall in US tourism in the summer of 1986. Both textile exports and imports appear to be highly sensitive to exchange-rate effects. Exports of textiles from the UK to Europe in the first quarter of this year were buoyed up by the weakness of sterling against other European currencies. By contrast exports to North America, Australia and Hong Kong in the same period were hampered by the relative strength of sterling against the dollar. At the annual general meeting of Coats Viyella, held in Glasgow in June, the annual pre-tax profits of £182 million on a turnover of £1.34bn were announced. The Chairman stated that all of the Scottish businesses were doing well and therefore the jobs of the 5,000 employees in Scotland were safe for the time being.

PAPER, PRINTING AND PUBLISHING

The Index of Production of the Scottish paper, printing and publishing industry recorded a rise of six points during the

fourth quarter of 1986 to stand at 112. This was the third successive quarterly rise in the Index and between the fourth quarters of 1985 and 1986 output grew by almost 9%. The second half of 1986 saw particularly vigorous output growth with the series reaching its highest levels for 7 years. In the UK as a whole, output also grew during the final quarter of the year although less strongly than in Scotland, the fourth quarter figure of 106 being 3 points above that for the third quarter.



In contrast, the July Scottish Business Survey suggests that the industry was faring less well in the three months to the end of June. A balance of 19% of firms reported a reduction in optimism since March although both sales and orders increased overall. It is notable that only sales to and orders from the rest of the UK increased while the domestic and export markets contracted. Employment fell among a net 15% of firms while a further 19% expect job losses between July and September.

In an otherwise quiet quarter, the main company news concerns the dispute between management and journalists at Scotsman Publications Ltd, the Edinburgh-based publisher of the Scotsman and Evening News. The firm is part of Thomson Regional Newspapers which, in turn, is a subsidiary of the Canadian multi-national Thomson Organisation. The Scotsman conflict is the most recent of several within the TRN group, Aberdeen Journals having experienced a similar dispute. The problems in the Group's newspapers

have generally arisen as a result of management attempts to introduce new technology and working practices, and this is a key issue in the Scotsman case. Management is seeking new working practices, including a 5-day week for some employees instead of the current 4 days, in return for higher pay and new investment. However, there is more to the dispute than questions about the introduction of new technology. First, it is alleged that TRN is steadily "picking-off" the newspapers in the group in order to assert the authority of management over workforces and that it is using the issue of new technology to provoke disputes which will allow the management to adopt a harsh posture. Certainly the Scotsman management took a particularly hard line during the recent dispute, sacking the journalists at one point and unilaterally altering conditions of work when the journalists returned to work. The second question raised, by the unions, is that of the status of the Scotsman within TRN. As the group's name suggest, it is a regional newspapers organisation with certain centralised news-gathering services such as foreign and parliamentary reporting. The Scotsman, however, is regarded as a national Scottish newspaper which has traditionally drawn copy from its own editorial and reporting staff, not from TRN. Yet the Scotsman no longer has any foreign correspondents and it has been suggested that it surrender its London office and use TRN's services instead. Thus, the unions believe that TRN is seeking to undermine the newspaper's status, relegating it to the same level as the English regional newspapers within the group. These two issues of managerial prerogatives and the future role of the newspaper are at least as important as the apparent source of the conflict, new technology.

Following the decision of Caledonian paper to locate a mill at Irvine, North British Newspring, a subsidiary of Stirling Fibre, is considering 3 Scottish sites for a £130 million paper mill.

Services

BANKING, INSURANCE AND FINANCE

The sale of the Clydesdale Bank emphasises the dramatic reorganisation of Scottish banking that has been a feature of the

last five years. The merger of the Royal Bank with Williams & Glyn's after the earlier abortive takeover bids together with the sale by Lloyds Bank of its shareholding in the Royal Bank of Scotland, the sale of Barclays holding in Bank of Scotland to Standard Life, the reorganisation of the TSB and its move to full banking status, and now the sale by the Midland Bank of its Clydeside subsidiary, represent a massive redistribution of the ownership of Scottish banks after decades of relative stability.

Scottish banking has a long and distinguished history. It was responsible in the eighteenth and early nineteenth centuries for a whole series of banking innovations, including the cash credit (a precursor of the overdraft), interest-bearing deposits and branch banking. However, banking legislation in the mid nineteenth century effectively killed further innovation whilst at the same time protecting existing participants from effective competition. The result was a relative decline in Scottish banking ultimately resulting in English banks acquiring ownership stakes in the Scottish banks. Management control, however, remained largely in Scotland and the Scottish banking system could be characterised by its relative stability and a slow rate of change and innovation. More recently the decades of slow adaptation have been replaced by increased competition, more rapid and determined innovation and an unscrambling of all the ownership stakes of the English Clearers. It is clearly of interest to consider the reasons for these changes.

At the heart of the current fundamental changes in the nature of financial markets has been a reduction in regulation combined with attacks on restrictive practices. Financial markets have been opened up to increased competition. This has led to an influx of institutions from overseas and the realisation of the opportunities resulting from the greater integration of the activities of market participants. Institutions are now permitted to expand into new areas of financial markets removing in the process the validity of many institutional distinctions. Competition is now largely by product rather than tightly controlled with a segmented institutional framework. Increased competition from overseas has

also largely removed the geographical segregation of financial markets so that the UK domestic banks are under increased threat, both from other banks and other financial institutions such as the building societies. Competitive forces have strengthened. In the face of this increased competition, the Scottish and English banks have been faced by a need for change.

For the consumer it is the range of financial services and intermediaries available that matters and not its origin. Savers may prefer to deposit money with a Scottish bank but this preference will not count for much if the interest rates they receive on deposits are lower than those offered by other institutions, or if the particular financial service consumers require is unavailable. The clearest advantage the Scottish institutions possess is their ease of access to local markets. Scottish institutions have a degree of knowledge of local conditions that cannot easily be learnt except by close involvement with customers and companies. Their branch network provides a mechanism for acquiring information and improving communications with customers as well as offering geographical advantages of improved availability and access. However, the economies of branch networks are becoming increasingly unfavourable. Staff are an expensive resource and high calibre staff are in short supply. The needs of businesses have become more complex requiring better facilities and more head office involvement, whilst the communication revolution has reduced the need for local branches and the costs of information transmission. At the same time the marketing needs of the banks require a substantial new investment in both facilities and people if branches are to play their full part in selling the banks services. In short, whilst the branch network still has an important part to play in the marketing strategy of a bank, it is but one of several distribution channels. To be able to make its full contribution to the success of the bank in the new competitive environment, the majority of bank branches require considerable upgrading and rationalisation involving large scale investment.

Against this background the changes in the Scottish banking sector, and the sale of the Clydesdale in particular, should not

be at all surprising. The Scottish banks almost certainly have an excess of branches given current technological changes and the cost of maintaining branch offices. Their branch networks require modernisation and rationalisation as the Clydesdale, which announced a round of cuts last December, has admitted, whilst the other Scottish banks continue to systematically rationalise their branches. To bring the branches up to the level required for selling a range of financial services will require substantial and prolonged cash commitment. The Midland certainly does not have such cash to spare. Faced by non-payment of interest on a substantial part of its Latin-American debt, together with the cash needs of its own branch network and wider financial intermediary aspirations, the Midland is not in a position to fund widespread improvements in the branch network of the Clydesdale. Indeed, doubts persist over the wisdom of such expenditure. Can bank branches become financial supermarkets selling a wide range of financial services? The benefits to the banks if they can are clear but experience elsewhere does not suggest that the consumer is easily persuaded to use one branch or indeed institution for all their financial needs. Considerable reservations must be expressed about the ability of the banks to succeed in selling **through their branches** a wide range of financial services. It is too early to know if the Midland's management is making a wise decision in reducing the size of its branch network by selling the Clydesdale. The sale reduces the bank's exposure to risks arising from technological innovation in the marketing of financial products and leaves it free to construct a new lean branch network in Scotland.

The purchaser of the Clydesdale, the National Australian Bank is gaining a foothold in the UK and European markets. The bank has announced its intention of expanding into England to create a strong network and in purchasing the Clydesdale it has secured a recognised name, head office and personnel. However, given the regional imbalance of the Clydesdale within Scotland and the uninspired performance of its management in recent years - although that may have been the result of an environment in which funds were short and decision making complicated by the drive of the Midland Bank to centralise decision making - it is difficult to see the particular benefits

that acquisition of the Clydesdale offers over the use of an equivalent amount of cash on grass roots expansion in the UK. There can be little doubt that the process of branch rationalisation at the Clydesdale will continue and probably accelerate although the company may take greater care than the Midland to ameliorate the shock of the surgeons knife. It remains true that the National Australian Bank will be looking for a significant and growing return on its investment and that this is unlikely to be provided given the slow growth of the Scottish market. Substantial reorganisation of the management and headquarters must also occur as a management team that has been on the defensive fighting off the centralising tendencies of the Midland, adopts an aggressive, expanding persona. In addition, management functions, previously carried out by the Midland, must now be carried out in-house or remitted to the National Australian Bank for consideration. Branch expansion will be predominantly in England rather than in Scotland although there may be some head office expansion. The takeover must be more important in preventing substantial employment losses from Scotland than in creating new job opportunities. Doubts must also be expressed about the bank's long-term future in Scotland. Banking, particularly international and corporate business, in the UK is concentrated in London. It is questionable whether any bank interested in building an international network as the National Australian Bank appears to be, will be content, in the long term, with its headquarters in Glasgow. In the short-term the change in ownership of the Clydesdale must be a good thing for Scottish customers and the bank's employees. The long-term future is much more problematic.

DISTRIBUTIVE TRADES

In line with previously expressed expectations, a net balance (+37%) of Scottish wholesaler respondents to the July Scottish Business Survey reported an increase in sales volume over the second quarter of this year. Furthermore, 55% of respondents expected further sales growth in the third quarter, while only 12% expected a decline. However, the relatively healthy trend in sales performance was not matched in terms of

employment, with a net 7% of wholesalers recording job losses during the second quarter. On balance, both full-time and part-time employment declined. In spite of their optimistic outlook on sales, wholesalers, overall, expected further employment reductions in the third quarter.

The geographical pattern of wholesale responses to the July SBS is shown in Table 1. Edinburgh wholesalers had a particularly good second quarter, more than realising the predictions made by respondents to the April SBS. In contrast, Aberdeen wholesalers experienced a further net decline in sales in the three months to June and also accounted for most of the balance of reported job losses. In spite of a good overall second quarter performance and expectations of further short-term sales growth, Glasgow wholesalers predicted quite a sharp fall in third quarter employment.

Table 1 Geographical response to July 1987 SBS: wholesaling

		Balance of respondents in:			
		G	E	D	A
		%	%	%	%
Overall					
confidence	UP	+38	+37	+55	-32
Actual sales	UP	+37	+90	+39	-32
Expected					
sales	UP	+58	+82	+15	+1
Actual					
employment	UP	+9	+17	-3	-47
Expected					
employment	UP	-31	+12	-2	-37
Investment					
intentions	UP	+14	+30	+20	+13

Key: G = Glasgow, E = Edinburgh
D = Dundee, A = Aberdeen

In contrast to the rather variable quarter-to-quarter sales performances reported by Scottish wholesalers, Scottish retailers have been consistently recording net sales increases and this trend is continuing according to the July SBS

returns. A net 31% of retail respondents indicated that sales had grown between April and June and a balance of 49% expected further increases in the third quarter.

Total reported employment in retailing again rose by a modest amount during the second quarter. Increases were noted in both part-time and, to a lesser extent, full-time employment. Encouragingly, a balance of 12% of respondents expected a further increase in jobs before October. Table 2 shows geographical details from the July SBS for retailing.

Table 2 Geographical response to July 1987 SBS: retailing

		Balance of respondents in:			
		G	E	D	A
		%	%	%	%
Overall					
confidence	UP	+31	-25	+2	-7
Actual sales	UP	+53	-21	+25	-26
Expected					
sales	UP	+80	+60	+43	-2
Actual					
employment	UP	-17	-26	+3	+15
Expected					
employment	UP	+34	+22	+11	+11
Investment					
intentions	UP	+15	+22	-15	+31

Key: G = Glasgow, E = Edinburgh
D = Dundee, A = Aberdeen

Following a well-established pattern, Glasgow retailers on balance outperformed the all-Chambers average in terms of second quarter sales growth. After showing a small first quarter increase, Aberdeen retail sales returned to the pattern of decline exhibited during most of last year.

In April, Edinburgh retailers were pessimistic about sales prospects for the second quarter, and this appears to have been justified by the net decline in sales

recorded in the July survey. However, both Glasgow and Edinburgh retailers were notably optimistic concerning sales prospects for the third quarter.

TOURISM

Tourists, following the conventions established at the 1963 United Nations Conference on Travel and Tourism, are officially defined as people staying overnight in places other than their normal place of residence for any of a wide range of purposes - leisure, ie recreation, holiday, health, religion or sport; business; miscellaneous other purposes. Domestic tourism within Britain expanded steadily throughout the 19th century and for much of the present one, while international arrivals jumped a factor of twenty between 1960 and 1980. While the former has shown little upward movement over the last decade, the latter continues to record a pattern of growth: expenditure of overseas tourists to Britain at constant prices increased from £2,560 million in 1975 to £3,629 million in 1985.

Table 1 Volume and value of Scottish tourism, 1986

	Trips (millions)	Bed- nights (millions)	Expendi- ture £m
Domestic tourism	11.9	55.6	1,224
Overseas tourism	1.2	13.0	320
Total	13.1	68.6	1,544

Source: STB

In Scotland, official estimates for 1986 suggest that Scotland received just over 13 million tourists, of whom 91% were domestic ie Britons visiting Scotland (see Table 1). Overseas tourists made up the remaining 9%, and accounted for roughly one out of every five tourist pounds spent in Scotland. It should be noted that bednights generated by these 13 million tourists were down 2% on last year and 11%

on 1984. Most of Scotland's leading tourist attractions grossed lower arrival attendance figures in 1986 than those achieved in 1985. The fall-off was as high as 24% in the case of the Killicrankie Visitor Centre (see Table 2). The Highlands and Islands region experienced a 4% and 6% drop in hotel and self-catering occupancy levels. As the Highlands and Islands Development Board opines in its latest annual report, 1986 was "a difficult season".

Table 2 Annual attendance figures at leading Scottish attractions, 1986

	No of admissions ('000s)	1986 compared with 1985
Edinburgh Castle	832	-10.9
Loch Ness Centre	200	-10.0
Stirling Castle	197	- 5.3
Glencoe Visitor Centre	126	- 8.1
Blair Castle	124	- 5.2
Scottish National Gallery of Modern Art	122	- 8.6
Inverewe Gardens	121	- 2.9
Scott Monument	98	- 0.7
Culloden Visitor Centre	94	-10.0
Scone Palace	91	-13.6
Waverley Paddle Steamer	88	-14.1
Inveraray Castle	80	-11.6
Crathes Castle and Gardens	78	- 2.1
Killicrankie Visitor Centre	68	-24.2
Brodick Castle & Gardens	53	- 0.1
Hopetoun House	51	-19.2
Bannockburn Centre	50	-12.9
Loch Garten Nature Reserve	50	-13.1

Source: STB

For 1987 there are some early signs of encouragement. The weather has been kinder with occupancy levels for self-catering accommodation during April and May showing a marked improvement on 1986. The newly appointed Chief Executive of the Scottish Tourist Board, Tom Band, is confident that performance generally will be up on 1986.

The Labour Market

EMPLOYMENT

Developments in external labour markets

Recent data on employment in Scotland is given in Tables 1 and 2. Care is needed in the interpretation of this table as no seasonal adjustment has been applied. The period December 1985 to December 1986 shows a small increase in total employment (approximately 17,000 persons); male employment fell slightly over the period, whilst female employment rose by a more than compensating magnitude. Part-time female employment continues to grow steadily, as has been noted in recent issues of the **Commentary**. Manufacturing employment fell by 14,000 during the year to December 1986, thus accounting for almost all of the total change. Significant falls in employment may also be seen in the energy and water supply, retail distribution and primary sectors. Sectors which generated significant gains in employment were construction (which has suffered severely in the recent past) and banking, insurance and finance.

Much public debate has recently been concerned with the question of whether a sustained growth in employment has now begun. Short-time series such as those given in Table 1 and 2 cannot help in settling such a question. Frequent data revision creates difficulties in splicing together information from successive quarters. Some comment and analysis of longer term employment trends was presented in the May 1987 issue. This issue will be examined at length in the next issue of the **Commentary**.

One source of employment growth in Scotland in the past decade has been the growth in the numbers of persons covered by so-called "special measures". It is not appropriate here to enter into the debate as to whether such schemes create

genuine employment or not, but it is clear that the measures will have a significant impact upon the recorded shares of persons in the employment/unemployment categories.

Table 3 presents an analysis of the numbers covered by Special Schemes since 1975. The overall total shows a dramatic rise since that date from 6,800 to over 80,000, with the rate of increase having fallen significantly since 1980, and with small reductions in the numbers covered since January 1986. It is unclear what effect this set of schemes has had upon the unemployment totals; more will be said upon this matter in the following section.

UNEMPLOYMENT: STOCKS AND FLOWS

The most recent officially published unemployment data is presented in Tables 4 and 5. Looking first at the stock of unemployment, it can be seen that the total fell in June 1987 to 333,600. In the last 6 months, seasonally adjusted unemployment has fallen by approximately 16,000, with falls recorded in 4 out of the 6 months. The average monthly change over the 6 months to June was a fall of £2,300 persons. The drop between April and May of 8,600 was particularly large. At 13.5% the unemployment rate was lower in June than in any month during the previous year. Nevertheless, unemployment remains higher than it was at the beginning of 1986. Furthermore, it is hard to find support in Scottish data for the buoyant optimism that often surrounds announcement of recent UK data. For example, the UK total rate of 10.5% is around one quarter lower proportionately than the Scottish figure; UK unemployment has fallen in each of the previous 12 months, and the rate of fall in UK unemployment has been (more or less) continually increasing over the year.

What can be said about the situation

Table 1 Employment: Scotland Employees in employment

SIC 1980	Agriculture forestry and fishing	Energy and water supply	Metal manufac- turing and chemicals	Metal goods, engineer- ing and vehicles	Other manufac- turing	Construc- tion
	0	1	2	3	4	5
Scotland						
1985 Sept R	36	58	53	189	191	140
Dec R	31	57	53	185	189	139
1986 Mar R	31	54	52	183	186	139
June R	31	51	52	181	184	140
Sept R	30	49	52	179	185	142
Dec	29	45	52	178	184	144
Great Britain						
1985 Sept R	347	570	798	2,391	2,128	1,005
Dec R	323	559	788	2,363	2,125	997
1986 Mar R	308	543	782	2,324	2,096	986
June R	310	533	777	2,286	2,099	991
Sept R	335	524	781	2,281	2,119	1,000
Dec	313	514	777	2,253	2,123	1,007

	Wholesale distribu- tion hotels & catering	Retail distribu- tion	Transport and communi- cation	Banking insurance and finance	Public adminis- tration & defence	Education health & other services
Scotland						
1985 Sept R	194	183	117	150	173	430
Dec R	187	187	116	148	172	436
1986 Mar R	185	181	114	149	174	431
June R	194	178	114	153	176	438
Sept R	192	178	116	156	178	435
Dec	183	180	115	156	178	439
Great Britain						
1985 Sept R	2,200	2,055	1,341	2,071	1,932	4,261
Dec R	2,162	2,144	1,331	2,086	1,945	4,322
1986 Mar R	2,129	2,061	1,324	2,094	1,954	4,347
June R	2,206	2,055	1,336	2,122	1,956	4,433
Sept R	2,215	2,059	1,348	2,161	1,977	4,386
Dec	2,173	2,146	1,340	2,166	1,988	4,470

R = revised

Source: Employment Gazette

in Scotland is that the suggestion that the Scottish trends lag behind but broadly follow the UK pattern is consistent with the figures.

The inflows to the stock of unemployment, shown in Table 5, support a contention of improving labour market trends, although it is too early to detect any stable pattern over time. Broadly speaking, monthly inflows, whilst larger than their counterparts of the same month in the previous year, have shown a decline in the magnitude of their increase. The two most recent months show falls in their levels with respect to the previous year. Outflows have, on average, been increasing in magnitude, particularly in the last half year.

As noted in the previous section, the effect of the various training and job creation schemes has almost certainly been to reduce unemployment below the level it would otherwise have been. It is clear from Table 3, however, that the schemes cannot explain more than a small proportion of recent changes in employment and unemployment, and pale into insignificance in comparison with the longer term changes that have occurred over time. One interesting feature of the figures presented in Table 3 is the official estimates of the net unemployment effects of the schemes. The bottom row illustrates the government's belief that the net effect on unemployment is between half and two thirds of the numbers of persons covered by the schemes. This is due to several factors; for example, some of the schemes are not designed to increase employment, but to switch employment opportunities towards particular groups. Taken together with displacement effects and non-registration of unemployment by some people who became unemployed, it would indeed be surprising if the effect was any larger than that given by official estimates.

Longer term effects of the schemes may well turn out to be more important than short term effects, as these measures will affect the skills levels of predominantly young persons; there may also be beneficial employment effects operating via changes in the level of real wages as a result of the schemes. A recent analysis has been made of the effect in

the UK as a whole of the special employment and training schemes.* In that analysis, Trinder argues that "the fall in registered unemployment since June 1986 may be quite largely due to the growth of special employment measures". He also suggests that the effect of the recent "Restart" interview scheme may have had a significant effect since its introduction in July 1986.

Table 6 illustrates the "likelihood" of moving into and out of the stock of unemployed persons. Previous issues of the **Commentary** have stressed the pitfalls of too literal a reading of such likelihoods; they represent nothing more than simple averages of highly variant processes. Nevertheless, it is sobering to note that in Scotland, for males and females together, the likelihood of becoming unemployed was higher in the quarter to January 1987 compared with the quarter to January 1986. Using the same time periods, the likelihood of ceasing to be unemployed fell. [Note, however, that neither change is large.] The experience in Great Britain as a whole was the opposite of that in Scotland.

Finally, Tables 7 and 8 present data on the duration of unemployment in Scotland. Previous issues of the **Commentary** have demonstrated the high incidence of long term unemployment. Much analysis of economic policy towards unemployment draws a strong dichotomy between long term and shorter term unemployment, often arguing that public policy measures aimed at job creation should concentrate on the pool of longer term unemployed. Apart from any humanitarian reasons for such a stance, the economic argument suggests that long term unemployed people are in some sense removed from the active labour market. Creating employment for these individuals, it is argued, would have much less serious implications for labour shortages or bottlenecks and hence for inflationary pressures in the labour market. In general, it seems clear that well designed policy to deal with employment should take into account the diversity of the labour market and not treat the unemployed as an undifferentiated 'pool'.

*C Trinder: 'Unemployment' pp17-19, National Institute Economic Review, May 1987.

Table 2 Employment: Scotland Employees in employment (thousands)

	Male	Female		Total	Index September 1984 = 100	Produc- tion and construc- tion indus	
		All	Part-time				
SIC 1980						1-5	
Scotland							
1985 Sept R	1,049	865	361	1,915	100.6	631	
Dec R	1,038	862	364	1,900	99.8	623	
1986 Mar R	1,027	851	358	1,878	98.6	613	
June R	1,032	861	361	1,892	99.4	607	
Sept R	1,032	859	361	1,892	99.4	608	
Dec	1,023	860	367	1,883	98.9	602	
Great Britain							
1985 Sept R	11,753	9,345	3,993	21,098	101.2	6,891	
Dec R	11,712	9,434	4,091	21,145	101.4	6,832	
1986 Mar R	11,600	9,348	4,058	20,947	100.5	6,731	
June R	11,643	9,461	4,140	21,103	101.2	6,686	
Sept R	11,705	9,480	4,108	21,186	101.6	6,705	
Dec	11,658	9,612	4,227	21,270	102.0	6,674	
SIC 1980							
	Index Sept 1984 = 100	Produc- tion in- dustries	Index Sept 1984 = 100	Manu- facturing industries	Index Sept 1984 = 100	Service industries	Index Sept 1984 = 100
		1-4		2-4		6-9	
Scotland							
1985 Sept R	98.9	491	98.5	433	99.9	1,248	101.5
Dec R	97.7	484	97.0	427	98.5	1,246	101.4
1986 Mar R	96.2	475	95.2	421	97.0	1,234	100.4
June R	95.2	467	93.7	416	96.0	1,254	102.0
Sept R	95.3	466	93.3	417	96.1	1,254	102.0
Dec	94.4	458	91.8	413	95.3	1,252	101.8
Great Britain							
1985 Sept R	99.1	5,886	99.3	5,316	99.8	13,860	102.3
Dec R	98.2	5,835	98.4	5,275	99.0	13,990	103.3
1986 Mar R	96.8	5,745	96.9	5,202	97.7	13,909	102.7
June R	96.1	5,695	96.0	5,162	96.9	14,108	104.2
Sept R	96.4	5,704	96.2	5,181	97.3	14,146	104.5
Dec	95.9	5,667	95.6	5,153	96.7	14,283	105.5

R = revised

Source: Employment Gazette

Table 3 Number of people in Scotland covered by special measures ('000s)

	1975		1976		1977		1978		1979		1980		1981	
	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec	
YES)	2.1	7.6	20.2	26.2	28.8	28.2	13.0	7.5	1.3	-	-	-	-	
ISTWCS) (b 1978/& STWCS)	-	-	-	-	-	-	0.4	8.9	18.7	11.0	58.2	17.1	11.8	
JRS	-	-	-	1.0	1.9	1.3	2.0	2.3	4.8	5.3	5.0	4.5	4.4	
CI	0.5	0.7	0.8	0.9	0.9	0.9	1.0	1.2	1.3	1.4	1.4	1.5	1.5	
YOP (replaced JCP & WEP)	-	-	-	-	-	5.0	8.4	12.2	14.2	13.8	20.4	22.6	30.0	
YIS (b 1983. Replaced YOP)	-	-	-	-	-	-	-	-	-	-	-	-	-	
CP (b 1982)	-	-	-	-	-	-	-	-	-	-	-	-	-	
TI	2.4	2.4	2.2	3.1	2.0	3.0	2.0	2.6	2.5	0.5	1.3	1.4	1.5	
YWS	-	-	-	-	-	-	-	-	-	-	-	-	-	
EA (b 1982)	-	-	-	-	-	-	-	-	-	-	-	-	-	
JSS (b 1983)	-	-	-	-	-	-	-	-	-	-	-	-	-	
JCP	0.4	4.6	8.0	10.2	11.5	13.1	-	-	-	-	-	-	-	
RSSL (later YES) (changed in 1976)	(1.3	2.3	0.4	2.8	0.8	0.5	-	-	-	-	-	-	-	
WEP*	(-	-	0.2	1.3	4.4	-	-	-	-	-	-	-	-	
SFES	-	-	-	-	1.0	2.8	4.5	7.2	6.5	3.7	-	-	-	
TSDSp Career for young people	0.1	0.2	-	0.8	0.9	-	-	-	-	-	-	-	-	
STEP (b 1978) (replaced job creation for adults)	-	-	-	-	-	-	0.4	1.8	1.9	2.4	2.9	3.6	5.0	
Total	6.8	17.8	31.8	46.3	52.2	54.8	31.9	43.8	51.3	38.1	84.1	50.7	54.2	
Govt estimates of net effect on unemployment reduction							16.0	24.0	25.0	24.0	48.0	47.0	35.0	

	1982		1983		1984		1985		1986		1987
	June	Dec	May								
YES)	-	-	-	-	-	-	-	-	-	-	-
ISTWCS) (b 1978/& STWCS)	2.7	1.3	12.9	2.6	1.3	-	-	-	-	-	-
JRS	5.4	6.1	6.2	6.7	6.8	5.9	4.5	3.6	2.7	2.1	1.7
CI	1.5	1.4	1.4	1.5	1.4	1.4	1.5	1.4	1.5	1.7	1.7
YOP (replaced JCP & WEP)	30.0	30.5	24.7	4.3	-	-	-	-	-	-	-
YIS (b 1983. Replaced YOP)	-	-	0.5	26.9	32.7	36.5	34.5	34.9	37.4	35.3	35.8
TI	-	5.9	10.4	16.3	16.1	17.5	18.5	24.2	30.0	31.7	30.1
YWS	1.6	1.4	1.4	0.8	0.9	0.7	0.7	0.7	-	-	-
EA (b 1982)	8.2	14.2	11.7	11.6	10.5	8.4	6.7	6.8	8.4	0.3	-
JSS (b 1983)	0.1	0.2	0.3	1.7	2.9	3.1	4.0	4.5	5.4	6.9	6.4
JCP	-	-	0.2	0.2	-	-	-	0.1	0.1	-	-
RSSL (later YES) (changed in 1976)	-	-	-	-	-	-	-	-	-	-	-
WEP*	-	-	-	-	-	-	-	-	-	-	-
SFES	-	-	-	-	-	-	-	-	-	-	-
TSDSp Career for young people	-	-	-	-	-	-	-	-	-	-	-
STEP (b 1978) (replaced job creation for adults)	6.4	-	-	-	-	-	-	-	-	-	-
New Workers Scheme	-	-	-	-	-	-	-	-	-	2.3	2.7
Total	61.0	65.1	69.7	72.6	72.6	73.5	70.5	76.1	80.6	80.3	80.1
Govt estimates of net effect on unemployment reduction	37.0	37.5	37.5	50.0	50.0	53.0	N/A	N/A	N/A	N/A	N/A

Source: Scottish Economic Bulletin

Table 4 Scotland - Unemployment - seasonally adjusted (excluding school leavers) ('000s)

Date	Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate: percentage of working population
1986 June	236.0	104.9	340.9	1.9	1.0	13.8
July	236.8	106.0	342.8	1.9	1.4	13.8
August	238.4	106.1	344.5	1.7	1.4	13.9
September	238.8	105.5	344.3	-0.2	0.9	13.9
October	239.8	105.3	345.1	0.8	1.1	13.9
November	241.1	105.1	346.2	1.1	1.2	14.0
December	242.6	104.8	347.4	1.2	1.1	14.0
1987 January	244.4	104.9	349.3	1.9	1.1	14.1
February	243.4	102.9	346.3	-3.0	0.3	14.0
March	242.4	101.4	343.8	-2.5	-0.1	13.9
April	242.5	102.8	345.3	1.5	0.0	13.9
May (r)	237.9	98.8	336.7	-8.6	-1.6	13.6
June (p)	235.6	98.0	333.6	-3.1	-2.3	13.5

(p) Provisional and subject to revision (r) Revised

All figures are individually rounded and therefore may appear not to balance.

Source: Department of Employment

Table 5: Unemployment flows - standardised, unadjusted: Scotland ('000s)

Month ending	In-flow				Out-flow			
	Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year	Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year
1986 June	42.8	2.9	39.9	2.1	43.0	2.2	40.7	0.0
July	52.8	2.7	50.1	4.0	44.5	2.5	42.1	2.7
August	42.2	2.3	39.9	3.2	42.5	2.2	40.4	-0.6
Sept	59.2	12.3	46.9	2.7	54.4	4.1	50.3	4.3
Oct	49.0	3.3	45.7	1.4	53.1	5.4	47.7	2.9
Nov	45.1	1.8	43.3	1.9	44.4	3.3	41.0	-0.8
Dec	40.4	1.4	39.0	1.7	34.9	1.7	33.2	-1.9
1987 Jan	46.0	7.3	38.7	2.2	30.8	1.3	28.2	5.8
Feb	42.8	3.8	39.0	1.3	50.7	4.1	46.6	4.5
Mar	38.3	2.3	36.0	0.8	47.1	3.1	44.0	5.4
Apr	42.4	1.8	40.6	2.8	42.7	2.0	40.7	-0.4
May	35.5	1.5	34.0	-2.6	50.4	2.1	48.4	5.7
June	38.1	1.5	36.6	-3.3	44.4	1.6	42.8	2.1

Source: Department of Employment

Table 6 Unemployment: Likelihood of becoming unemployed and ceasing to be unemployed by sex

	Scotland	Great Britain
MALE		
Unemployment rates (%)		
January 1986	17.7	14.1
January 1987	18.2	13.6
Likelihood of becoming unemployed		
October 1985-January 1986	5.5	4.5
October 1986-January 1987	5.9	4.5
Change	+0.4	-
Likelihood of ceasing to be unemployed		
October 1985-January 1986	26.9	27.7
October 1986-January 1987	26.6	30.3
Change	-0.3	+2.6
FEMALE		
Unemployment rates (%)		
January 1986	10.8	9.4
January 1987	10.9	9.1
Likelihood of becoming unemployed		
October 1985-January 1986	4.4	3.7
October 1986-January 1987	4.4	3.6
Change	-	-0.1
Likelihood of ceasing to be unemployed		
October 1985-January 1986	37.3	37.6
October 1986-January 1987	37.4	41.0
Change	+0.1	3.4
MALE AND FEMALE		
Unemployment rates		
January 1986	14.8	12.2
January 1987	15.1	11.8
Likelihood of becoming unemployed		
October 1985-January 1986	5.1	4.2
October 1986-January 1987	5.2	4.1
Change	+0.1	-0.1
Likelihood of ceasing to be unemployed		
October 1985-January 1986	30.1	30.8
October 1986-January 1987	29.9	33.7
Change	-0.2	+2.9

Source: Employment Gazette

Finally, Table 7 indicates that although the total unemployment percentages are lower in Britain as a whole than in Scotland, the duration proportions are broadly similar.

Table 7 Unemployment: Median duration of unemployment by sex

	Scotland	Great Britain
MALE		
Completed spells (computerised records only)		
October 1985-January 1986	11.9	11.3
October 1986-January 1987	12.1	11.9
Change	+0.2	+0.6
Uncompleted spells (all records)		
January 1986	40.4	40.2
January 1987	38.2	40.9
Change	-2.2	+0.7
FEMALE		
Completed spells (computerised records only)		
October 1985-January 1986	11.9	11.0
October 1986-January 1987	12.4	11.9
Change	+0.5	+0.9
Uncompleted spells (all records)		
January 1986	25.8	26.8
January 1987	27.1	28.1
Change	+1.3	+1.3
MALE AND FEMALE		
Completed spells (computerised records only)		
October 1985-January 1986	11.9	11.2
October 1986-January 1987	12.2	11.9
Change	+0.3	+0.7
Uncompleted spells (all records)		
January 1986	35.0	35.0
January 1987	34.3	35.8
Change	-0.7	+0.8

Source: Employment Gazette

Table 9 computes the proportions of unemployed by spell length. It is clear that significant proportions of people are unemployed for very long periods. For example, nearly 9% of the total unemployed have been in that position for over 5 years, and nearly 18% over three years.

Table 8 Unemployment: Age and duration: 9 April 1987

Duration of unemployment in weeks	Male				Female			
	Under 25	25-54	55 and over	All	Under 25	25-54	55 and over	All
2 or less	4,989	6,964	1,158	13,111	3,115	3,786	223	7,124
Over 2 and up to 4	3,823	4,896	559	9,278	2,277	2,626	150	5,053
4	6,815	8,195	1,085	16,095	3,843	4,134	217	8,194
8	7,786	9,018	1,254	18,058	4,720	4,512	278	9,510
13	15,562	18,514	2,974	37,050	9,293	8,660	624	18,577
26	20,234	23,768	4,584	48,586	12,069	12,965	1,084	26,118
52	13,262	22,416	3,930	39,608	6,891	7,785	1,203	15,879
104	5,358	13,283	2,366	21,007	2,416	3,160	907	6,483
156	2,697	9,192	2,525	14,414	1,302	2,000	807	4,109
208	1,779	7,384	1,627	10,790	850	1,438	703	2,991
Over 260	1,816	20,144	4,568	26,528	775	2,758	1,360	4,893
ALL	84,121	143,774	26,630	254,525	47,551	53,824	7,556	108,931

Source: Employment Gazette

Table 9 Duration of unemployment at 9 April 1987 (males and females)

Duration in weeks	% of total unemployed	Cumulative % of total unemployed
2 or less	5.6	5.6
Over 2 and up to 4	3.9	9.5
4	6.7	16.2
8	7.6	23.8
13	15.3	39.1
26	20.6	59.8
52	15.3	75.1
104	7.5	82.6
156	5.1	87.7
208	3.8	91.4
Over 260	8.7	100
ALL	100	100

Source: Employment Gazette

Taking one year of unemployment as a possible important division, we can see that 60% were unemployed for less than that period while 40% were so for more. Long term unemployment appears to be a more serious problem amongst males than females. For example, 10.5% of males who are unemployed have been unemployed for over 5 years compared with 4.5% of women.

Vacancies

Vacancies at jobcentres exhibited an increase in each of the first two quarters of this year (Table 10).

Table 10 Vacancies at jobcentres, (excluding Community Programme vacancies), seasonally adjusted, (000s)

		Scotland	Great Britain	Scotland as % of GB
1985	Mar 8	14.3	155.2	9.2
1985	Mar 29	14.2	160.4	8.9
	May 3	14.3	160.1	8.9
	Jun 7	14.3	161.1	8.9
	Jul 5	14.7	160.0	9.2
	Aug 2	14.5	161.2	9.0
	Sep 6	14.9	164.1	9.1
	Oct 4	15.0	168.3	8.9
	Nov 8	14.6	167.0	8.7
	Dec 6	13.8	161.8	8.5
1986	Jan 3	14.0	161.0	8.7
	Feb 7	14.6	165.2	8.8
	Mar 7	15.5	167.6	9.2
	Apr 4	15.4	167.9	9.2
	May 2	16.0	170.0	9.4
	Jun 6	16.9	182.4	9.3
	Jul 4	17.6	191.2	9.2
	Aug 8	17.6	199.0	8.8
	Sep 5	17.5	204.4	8.6
	Oct 3	16.6	210.7	7.9
	Nov 7	16.9	213.1	7.9
	Dec 5	16.5	208.1	7.9
1987	Jan 9	17.1	208.2	8.2
	Feb 6	17.2	205.0	8.4
	Mar 6	17.5	208.6	8.4
	Apr 3	16.7	211.7	7.9
	May 8	18.1	229.2	7.8
	Jun 5	18.3	231.3	7.9

Source: Department of Employment Gazette

Indeed the average level of vacancies in the second quarter (17.7 thousand) is the highest quarterly figure since the beginning of 1980 (18.3 thousand). GB vacancies also rose noticeably, and in fact Scottish vacancies as a proportion of the GB total was as low, in the second quarter, as it has been for some time (7.9%).

An increase in the stock of vacancies is generally interpreted as reflecting an increase in firms' demands for labour services. Notification of vacancies is often the first step following a firm's decision to expand the size of its workforce (although it is estimated that only about a third of all vacancies are notified to jobcentres and so recorded in official statistics). Consequently, increases in vacancies are expected to be reflected subsequently in increased employment and, to the extent that new jobs are filled by those currently registered as unemployed, a reduction in unemployment.

Table 11 Vacancy flows at jobcentres, standardised, seasonally adjusted, Scotland (000s)

	In Flow		Out Flow		Placings	
	Level	Average change three months ended	Level	Average change three months ended	Level	Average change three months ended
1986 Mar	21.4	0.7	20.4	0.1	17.7	0.0
Apr	19.5	0.5	19.5	0.5	16.4	0.3
May	20.1	0.2	19.6	0.2	16.9	0.0
Jun	20.9	-0.2	20.0	-0.1	17.3	-0.1
Jul	20.6	0.4	20.1	0.2	16.8	0.1
Aug	20.6	0.2	20.5	0.3	17.3	0.1
Sep	22.1	0.4	21.9	0.6	18.7	0.5
Oct	21.1	0.2	22.2	0.7	18.9	0.7
Nov	19.2	-0.5	18.8	-0.6	15.8	-0.5
Dec	19.4	-0.9	19.7	-0.7	16.6	-0.7
1987 Jan	19.6	-0.2	19.1	-0.7	16.1	-0.9
Feb	18.5	-0.2	18.2	-0.2	15.6	-0.1
Mar	21.6	0.7	21.2	0.5	18.2	0.5
Apr	18.5	-0.4	18.4	-0.2	15.7	-0.1
May	18.6	0.0	18.5	0.1	15.8	0.1
Jun	21.3	-0.1	21.0	-0.1	17.8	-0.1

Source: Department of Employment Gazette

By and large, the view that an increase in vacancies is associated with higher levels of economic activity is borne out by experience. So, for example, the last 'peak' in the level of vacancies in Scotland (of 22.3 thousand) occurred in the second quarter of the last peak year of economic activity, namely 1979. However, the relationship is by no means precise and does not occur with a fixed lag. Thus, for example, vacancies hit a trough of 10.7 thousand in 1981 Q2, but employment continued to fall until the end of 1983. The absence of a rigid link between activity levels and the stock of vacancies is not surprising once it is recognised that the latter represent the net outcome of large inflows and outflows. Furthermore, outflows from the vacancy stock do not always reflect a placement.

Table 11 summarises recent Scottish data on vacancy flows. Since vacancy outflows exceeded inflows for those months reported in Table 11, the average duration of a vacancy was less than one month. In general, vacancy durations would be expected to increase with labour market activity, reflecting firms' increased difficulty in finding suitable applicants in tighter labour markets.

Redundancies

Redundancies are an inevitable feature of any mixed economy. As tastes and technology change, so too does the composition of output and the allocation of resources, including labour. From the perspective of the economy as a whole, they are unproblematic provided those made redundant have skills which can be made to match those of expanding industries. However, redundancies obviously also reflect the overall level of labour market activity to some degree, and the recent recession's impact is clearly apparent from inspection of Table 12.

Since 1981 redundancies have declined steadily in GB. Scotland experienced a similar decline until 1986 when redundancies actually increased by 3,144.

In the first quarter of 1987, however, redundancies fell to 66% of their level in the previous year. More weight should be read into this than the apparent jump in the Scottish proportion of GB redundancies in the second quarter of this year since the data are, as yet, incomplete.

Table 12 Confirmed redundancies

	Scotland	G.Britain	Scotland as % of GB
1979	33,014	186,784	17.7
1980	57,178	493,704	11.6
1981	59,039	532,030	11.1
1982	48,944	400,416	12.2
1983	41,538	326,638	12.7
1984	30,164	245,443	12.4
1985	26,424	234,977	11.2
1985 Q3	5,229	56,198	9.3
Q4	6,512	70,969	9.2
1986 Q1	7,180	64,766	11.1
Q2	9,377	58,486	16.0
Q3	7,081	52,030	13.6
1986 Oct	2,574	19,191	13.4
Nov	1,352	13,634	9.9
Dec	2,004	16,734	12.0
1987 Jan	1,695	13,149	12.9
Feb	1,264	14,339	8.8
Mar	1,809	19,516	9.3
Apr	2,171	11,162	19.5
May	1,920	9,348	20.5
Jun	794	4,843	16.4

Source: Department of Employment Gazette

Earnings

The government's view of the labour market lays special emphasis on the 'price of labour' to firms. In particular they maintain that workers may 'price themselves into a job'. Reductions in wages, it is argued, makes labour cheaper to firms and so stimulates their demand for labour, increasing employment and

Table 14 Average weekly manual earnings of full-time employees (£) (all industries & services, April)

	Male adults			Female adults		
	Scotland	Great Britain	Scotland as % of GB	Scotland	Great Britain	Scotland as % of GB
1971	28.5	29.4	96.9	14.9	15.3	97.4
1972	31.7	32.8	96.6	16.8	17.1	98.2
1973	37.1	38.1	97.4	19.5	19.7	99.0
1974	42.9	43.6	98.4	23.4	23.6	99.2
1975	56.7	55.7	101.8	32.1	32.1	100.0
1976	66.2	65.1	101.7	39.4	39.4	100.0
1977	72.5	71.5	101.4	43.7	43.7	100.0
1978	81.4	80.7	100.9	50.2	49.4	101.6
1979	93.6	93.0	100.6	54.3	55.2	98.4
1980	112.2	111.7	100.4	66.3	68.0	97.5
1981	124.8	121.9	102.4	73.3	74.5	98.4
1982	136.9	133.8	102.3	79.2	80.1	99.9
1983	145.8	143.6	101.5	86.4	87.9	98.3
1984	156.2	152.7	102.2	91.3	93.5	97.7
1985	164.2	163.6	100.4	99.4	101.3	98.1
1986	173.0	174.4	99.2	103.2	107.5	96.0

Sources: Scottish Economic Bulletin, Employment Gazette (various issues)/New Earnings Survey

Table 15 Average weekly earnings of full-time employees (£): adult non-manual workers (April)

	Male adults			Female adults		
	Scotland	Great Britain	Scotland as % of GB	Scotland	Great Britain	Scotland as % of GB
1971	37.2	39.1	95.1	18.9	19.8	95.5
1972	41.7	43.5	95.9	21.0	22.2	94.6
1973	46.8	48.1	97.3	23.7	24.7	96.0
1974	51.8	54.4	95.2	27.0	28.6	94.4
1975	67.1	68.4	98.1	37.8	39.6	95.5
1976	80.8	81.6	99.0	47.0	48.8	96.3
1977	88.0	88.9	99.0	51.2	53.8	95.2
1978	99.8	100.7	99.1	56.6	59.1	95.8
1979	113.0	113.0	100.0	63.0	66.0	95.5
1980	139.8	141.3	98.8	78.2	82.7	94.6
1981	161.8	163.1	99.2	92.5	96.7	95.7
1982	179.9	178.9	100.6	101.0	104.9	96.3
1983	196.6	194.9	100.8	110.1	115.1	95.7
1984	208.6	209.0	99.8	117.9	124.3	94.9
1985	224.0	225.0	100.0	125.6	133.8	93.9
1986	238.3	244.9	97.3	139.1	145.7	95.5

Sources: Scottish Economic Bulletin, Employment Gazette (various issues)/New Earnings Survey

reducing unemployment. This argument has been critically evaluated in past **Commentaries**, and the debate is not reviewed again here, but it is clearly of interest to examine how earnings in Scotland have changed in the recent past relative to GB.

Table 14 summarises recent data on the average weekly earnings of manual workers in Scotland and the UK. Table 15 presents the relevant data for non-manual workers. Perhaps the most striking feature of the data is the scale of the change in earnings since 1971. Thus, the weekly earnings of a male manual worker have increased from £28.5 in 1971 to £173 in 1986. However, this primarily reflects general inflation (although real wages have undoubtedly risen).

It is more meaningful to compare wage relatives or differential over time than the levels of money wages. Column three of Table 14 expresses the Scottish male manual workers' average weekly earnings as a percentage of the comparable GB figure. At least from 1975 the remarkable feature of this ratio is its apparent stability, and perhaps the fact that Scottish earnings exceed those in GB until 1986. Such stability, over a period marked by fluctuations in economic activity suggests that there is little scope for regional specific influences on earnings, a suggestion borne out by recent research conducted in the Institute. A similar degree of stability is also apparent in the regional differentials for male non-manual workers, and female workers (both manual and non-manual).

Whilst regional differentials have exhibited remarkable insensitivity over a period of flux, the same is not true of the non-manual - manual differential. In 1975, for example non-manual workers enjoyed a differential of 18.3% over manual workers, but this has grown in each subsequent year (with the exception of 1984) to its current level of 37.7%. Over the period since 1971 the differential has fluctuated with a little evidence of narrowing in 'peak' activity years and widening in slack periods. There is some slight suggestion then of greater cyclical

sensitivity of manual workers pay.

The male-female differential is most noticeable simply for its scale. Currently male manual workers earn 67.6% more than their female counterparts. However, considerable caution should be exercised in interpreting such figures given the heterogeneity of the relevant groups and the impact of more widespread overtime working among males.

Table 16 Earnings differentials average weekly earnings (£)

	Male non-manual- manual/manual (1)	Male-Female differential manual non-man (2) (3)	(3)/(2)
1970			
1971	30.5	91.3	96.8
2	31.5	88.7	98.6
3	26.1	90.3	97.5
4	20.7	83.3	91.9
5	18.3	76.6	77.5
6	22.1	68.0	71.9
7	22.1	65.9	71.9
8	22.6	62.2	76.3
9	20.7	72.4	79.4
1980	24.6	69.2	78.8
1	29.6	70.3	74.9
2	31.4	72.9	78.1
3	34.8	68.8	78.6
4	33.5	71.1	76.9
5	36.4	65.2	78.3
6	37.7	67.6	71.3

Sources: Scottish Economic Bulletin and Employment Gazette (various issues)/New Earnings Survey

INDUSTRIAL RELATIONS IN SCOTLAND

Industrial relations in Scotland continues to be dominated primarily by decisions reached elsewhere. This was well illustrated in the recent and current major issues affecting the docks, Civil Service, buses and coal mining largely stemming from decisions made south of the border. Similarly, national policies

rather than local issues underlay the threats of job losses in shipbuilding, television and railways. Even in the most significant Scottish disputes, those involving journalists employed by the Scotsman and employees of the Scottish Bus Group, national factors shaped the local issues.

The apparent focus of the dispute between the Scotsman and its journalists were the related issues of the introduction of new technology and associated changes to pay and conditions. However, underlying the dispute was the fear, amongst staff, that proposals to reduce the scale of the Scotsman's London office heralded the introduction of a plan by Thompson Regional Papers, the owners of the Scotsman, to reduce the status of the paper to that of a regional paper with limited circulation. The ability of management staffs to maintain production, coupled with the acceptance of similar technological and work changes elsewhere, undoubtedly weakened the NUJ's position. The dispute ended with agreement as to the operation of the new technology and with the introduction of new patterns of hours and conditions. Nevertheless, the pressure to reduce labour costs and the flexibilities afforded by the new technologies in respect of direct entry of copy and local printing, will combine to change employment in Scottish newspapers over the next few years.

Industrial action amongst Scottish bus staffs centred on management attempts to improve labour efficiency by the introduction of new working arrangements. Labour flexibility has been a prominent feature in many recent labour issues in the public sector. In the railway industry the issue emerged in the disputes over flexible rostering and single-man operation, whereas in British Coal it has emerged over proposals for six day working. More generally, within the public sector, Government pressure for profitability or privatisation has been the stimulus for management initiatives. Hitherto, the agreement covering the 5,500 drivers in the 12 bus groups specified a guaranteed working day of 7 hours and 3 minutes. Drivers working above these hours, on any one day, qualified for overtime at time-and-a-half. Management proposed a basic pay of £150 for a 39 hour

week in return for a consolidation of a substantial amount of overtime, and, a new, more flexible, guaranteed working week. The guaranteed working day was to be reduced to 5 hours and 30 minutes, but employees would have to work 39 hours in any one week before qualifying for overtime payments. Whilst the dispute was settled by extending the length of the guaranteed working day management secured agreement for flexible scheduling.

Derogularisation of bus transport undoubtedly raised the levels of competition between bus groups. However, in the longer term profitability will tend to replace competition, hence bus groups have announced plans to reduce staff, possibly to the extent of halving the additional staffs employed immediately prior to deregulation. Increasing financial problems will add to pressures to cut unprofitable routes and to reach agreements to minimise competition, and thus lead to further reductions in employment.

Two other issues arose in the transport sector. The possibility of a national dock strike arose over plans to reduce the numbers of registered dockers employed at Greenock. Attempts to move registered dock workers to a 'temporary unattached register' were seen by the union as both attempts by employers to breach the National Dock Labour Scheme, and to reintroduce casual working. The issues and events at Greenock mirror those elsewhere as the industry continues to contract. There is likely to be a succession of such local disputes and compromises unless the government responds to employer pressure and returns to the issue of reform of the Dock Labour Scheme.

British Rail's progress to profitability has led to considerable increases in staff productivity. Hitherto this has led to significant changes to manning and working practices for railway drivers, guards and ticket staff. Plans for the period to 1990 envisage up to 1,000 mainly administrative job losses in Scotland. It is likely that the railway unions will face proposals to privatise elements of railway work in addition to further

reductions of peripheral activities.

Fears of job losses have prompted Scottish miners to press the NUM to seek a degree of truce with the UDM. The expansion of nuclear power generation, decline in traditional markets, growth of open-cast mining in Scotland have led to a recognition that jobs in a number of pits may be vulnerable if the NUM pursues its policy of opposition to the introduction of 6 day working.

Management initiatives to change traditional working practices have not been restricted to the public sector, some 70% of settlements contain a productivity element. Some of the more radical proposals have emerged in industries covered, until 1986, by Wages Council Regulations. The 1986 Wages Act limited the powers of Wages Councils to the establishment of a basic rate of pay and overtime rates. In a number of industries from wages Council regulations, introduced extensive changes to work practice. The proposals by one major Scottish hotel group to withdraw trade union recognition, introduce work flexibility, and end traditional demarcation are spreading in the hotel industry and are likely to emerge in other sectors hitherto covered by Wages Council Orders.

Undoubtedly, the most radical and far-reaching proposals to change management and employment practices are those proposed by Michael Forsyth, the Scottish Education Minister, in the consultative paper 'parent power'. It is not clear how these proposals are intended to fit with those emerging from the various working parties established under the auspices of the Scottish Joint Negotiating Committee.

The long term reviews of staffing and resources, and agreement on composite class size are due at the same time as the devolution of powers to the new school boards. The proposals to devolve a range of powers to school boards contain a

number of major employment implications.

The likely consequences for means of assessing heads, staff and issues of dismissal follow the arguments developed in the Main Report. On the other hand the proposals appear, at least superficially, to run against the moves towards managerialism within schools. Overall the proposals are likely, in the long term, to: first, fragment industrial action and reduce the possibility of action similar to that of recent years, especially the 'targetting' of schools. Secondly, to stress the importance of achieving 'good' pass rates etc. in the criteria for selecting and dismissing teaching staff. Thirdly, to raise complex questions as to the fair and unfair dismissal processes for teaching staff. Fourthly, question the ability to follow agreed procedures concerning senior non-promoted staff. Fifthly, to complicate and delay the development of managerialism. The implementation of these proposals will radically re-shape the established bargaining procedures and the contours of employment relations in Scottish teaching. In their most radical form they may well usher into Scotland the same degree of changes in England arising from the Education Act.

Regional Review

REGIONAL LABOUR MARKETS

Unemployment fell across Scotland during the second quarter of the year and in June stood at 340,341, a drop of 23,440 (6.4%) since March. As Table 1 illustrates, the headline total fell by 11,018 (3.1%) in the 12 months to March with reductions being recorded in all but three of the regional and island authority areas. (It should be noted that many of the figures quoted in this section differ from those reported in the press. The reasons for these differences are outlined in previous Commentaries.)

Table 1 Unemployment by region

	% rate July 87	Total June 87	Total June 86	Total Change	% Change
Borders	8.7	3,419	3,603	- 184	-5.4
Central	15.9	17,044	18,718	- 1,674	-8.9
Dumfries & Galloway	12.5	7,245	7,624	- 379	-5.0
Fife	15.5	21,077	22,022	- 945	-4.3
Grampian	9.4	21,801	19,798	+ 2,003	+10.1
Highland	14.0	12,380	12,307	+ 73	+0.6
Lothian	12.3	44,754	45,814	- 1,060	-2.3
S/clyde	18.0	185,009	192,806	- 7,797	-4.0
Tayside	14.4	24,340	25,239	- 899	-3.6
Orkney Islands	11.7	790	793	- 3	-0.4
Shetland Islands	7.6	759	759	0	0
Western Isles	17.3	1,723	1,876	- 153	-8.2
Scotland	15.2	340,341	351,359	-11,018	-3.1

Source: Department of Employment

The most notable exception to the general falls in unemployment was Grampian Region where the June total of 21,801 was 2,003 (10.1%) higher than a year before. This

clearly reflects the impact on local residents of the downturn in oil and oil related activity which followed last year's oil price collapse. However, there is some indication that the recovery in oil prices is having an ameliorating effect as the June figures represent an improvement on March, and the unemployment rate has now fallen below 10% again. The only other region recording a rise in unemployment was Highland, where the total edged up by 73 (0.6%) to 12,380. Among the other regions, falls of 5% or more have occurred in Borders, Central, Dumfries and Galloway and the Western Isles. In Shetland the total remained unchanged from 12 months before. In every area unemployment was lower in June than in March. At 18.0%, Strathclyde Region has the highest rate in Scotland while Borders remains the mainland region with the lowest rate at 8.7%.

Table 2 shows that the fall in unemployment has been concentrated far more among women than men. On average, female unemployment declined by 7.7% over the period with the male total dropping by only 1.1%. This may be the result of relatively more job opportunities becoming available to women, although the Restart interviews and eligibility for work tests may be removing a disproportionate number of women from the register. Falls of more than 10% in female unemployment occurred in Central, Tayside and the Western Isles. Only in Grampian (+2.8%) and Shetland Islands (+1.0%) did female unemployment rise. Even in Highland Region where the overall total increased, the female figure fell by 6.6%. As would be expected, male unemployment rose most strongly in Grampian, by 14.4%, and in Highland, by 4.0%. The fact that female unemployment is falling more quickly than male unemployment, for whatever reason, continues the trend observed in recent Commentaries.

It is conventionally assumed that vacancies registered at Job Centres and Careers Offices represent about one-third

Table 2 Unemployment by sex and by region

	Number unemployed June 1987		Change since June 1986	
	Males	Females	Males	Females
Borders	2,152	1,267	- 2.1	- 9.8
Central	11,641	5,403	- 7.5	-11.9
Dumfries & G/way	4,735	2,510	- 3.2	- 8.1
Fife	14,166	6,911	- 1.2	- 1.7
Grampian	14,248	7,553	+14.4	+ 2.8
Highland	8,705	3,675	+ 4.0	- 6.6
Lothian	31,631	13,123	-	- 7.5
S/clyde	133,559	51,450	- 2.5	- 7.9
Tayside	16,487	7,853	-	-10.2
Orkney Islands	539	251	+ 2.1	- 5.3
Shetland Islands	444	315	- 0.7	+ 1.0
Western Isles	1,290	433	- 6.0	-14.1
Scotland	239,597	100,744	- 1.1	- 7.7

Source: Department of Employment

Table 3 Vacancies and unemployment-vacancy ratios, by region, June 1987

	Vacancies		CP vacancies as % of		U/V ratio	
	Total	Excl. CP	total	Total	Excl. CP	
Borders	573	527	8.0	16.8	15.4	
Central	1,163	1,084	6.8	14.7	15.7	
Dumfries & Galloway	627	538	14.2	11.6	13.5	
Fife	1,002	792	21.0	21.0	26.6	
Grampian	2,391	2,290	4.2	9.1	9.5	
Highland	1,240	1,077	13.1	10.0	11.5	
Lothian	3,551	3,145	11.4	12.6	14.2	
S/clyde	11,293	9,395	16.8	16.4	19.7	
Tayside	1,317	1,105	16.1	18.5	22.0	
Orkney Is.	79	77	2.5	10.0	10.3	
Shetland Is.	104	66	36.5	7.3	11.5	
Western Is.	128	61	52.3	13.5	28.2	
Scotland	23,468	20,157	14.1	14.5	16.9	

Source: Department of Employment

of all current vacancies. This is because many employers prefer to use other recruitment channels to fill jobs and because Job Centres are seen to specialise in certain types of vacancy. Table 3 presents vacancy data for March 1987. In addition to employment vacancies, the total vacancies figure includes vacancies for self-employment and the MSC's Community Programme (CP), as well as the small number of jobs registered with the Careers Service. The unemployment-vacancy (U-V) ratio can be taken as an indicator of how many registered unemployed people are competing for each vacancy. Thus, in Scotland in June, and excluding CP vacancies, roughly 17 unemployed people were chasing each registered vacancy. However, as mentioned above, registered vacancies do not account for all current vacancies. In addition, it should be borne in mind that the vacancies will not necessarily be filled from the ranks of the registered unemployed. Overall, there has been a marked decline in the U-V ratio from March when the figure stood at 21.4.

When CP places are included the U-V ratio drops to 14.5. The highest rates, excluding CP vacancies, are in the Western Isles at 28.2, Fife at 26.6 and Tayside at 22.0. In contrast, the relative underlying strength of Grampian Region is reflected in a ratio of 9.5. Moreover, only 4.2% of the Grampian vacancies are for CP places, the remainder being for "real" jobs. This contrasts with areas such as the Western Isles, Shetland Islands and Fife where CP vacancies constitute, respectively, 52.3%, 36.5% and 21.0% of the total.

In Tables 4 and 5 some indication of the inter- and intra-regional variations in unemployment are provided. In simple terms a Travel-to-Work-Area (TTWA) is a relatively self-contained labour market in which at least 75% of the work force is resident in the area and at least 75% of the residents work in the area. A region with a high proportion of TTWAs in which the unemployment rate exceeds the Scottish average is designated a high unemployment region, the opposite being the case for low unemployment regions. This approach confirms Strathclyde as a high unemployment region with 9 of the 12 TTWAs exceeding the Scottish rate. In contrast, none of the 5 Borders TTWAs and only 2 of the 9 in Grampian have unemployment rates greater than the Scottish figure.

Table 4 TTWA in region with unemployment rates above the Scottish and regional averages

	No of TTWA	No above Scottish average	No above regional average
Borders	5	0	3
Central	3	2	2
Dumfries & Galloway	7	3	4
Fife	3	2	1
Grampian	9	2	8
Highland	8	3*	4
Lothian	3	1	1
Strathclyde	12	9*	6
Tayside	7	2	2
Scotland	57	24	

*In addition Wick & Ayr have rates equal to the Scottish average of 15.2%

Source: Department of Employment

Table 5 TTWA with highest and lowest unemployment rates

		%	High -Low	High /Low
Borders	H Berwickshire	13.1	6.0	1.85
	L Galashiels	7.1		
Central	H Alloa	19.6	6.4	1.48
	L Stirling	13.2		
Dumfries & G/way	H Cumnock & Sanquhar	28.1	18.3	2.87
	L Dumfries	9.8		
Fife	H Kirkcaldy	16.9	6.4	1.61
	L North East Fife	10.5		
Grampian	H Forres	20.8	12.7	2.57
	L Aberdeen	8.1		
Highland	H Invergordon & Dingwall	19.5	9.2	1.83
	L Thurso	10.3		
Lothian	H Bathgate	18.3	9.4	2.06
	L Haddington	8.9		
S/clyde	H Girvan	23.1	13.0	2.29
	L Oban	10.1		
Tayside	H Arbroath	21.6	10.6	2.04
	L Perth	11.0		

Source: Department of Employment

The final columns of Table 4 and Table 5 focus on intra-regional variations in unemployment. Previous Commentaries have noted that Grampian Region has a low overall rate in Scottish terms yet within the Region itself there is a considerable concentration of unemployment outwith the Aberdeen TTWA. In fact, in all TTWAs but Aberdeen the unemployment rate exceeds the regional average. The disparity of rates within Grampian is evidenced by the fact that the highest rate (Forres at 20.8%) is 2.57 times greater than in the lowest (Aberdeen at 8.1%). A similar tale applies to Dumfries and Galloway where the Cumnock and Sanquhar rate of 28.1% is 2.87 times greater than the Dumfries figure of 9.8%. Cumnock and Sanquhar and Galashiels remain, respectively, the TTWAs on the mainland with the highest unemployment rates. In Strathclyde, Girvan has replaced Irvine as the area with the highest unemployment.

Table 6 Notified redundancies by region, May to July 1987 (inclusive)

	Total	Prim.	Manuf.	Const.	Serv.
Borders	83	0	83	0	0
Central	230	0	226	4	0
Dumfries & Galloway	0	0		0	0
Fife	61	0	36	0	25
Grampian	339	54	108	2	175
Highland	117	0	117	0	0
Lothian	443	0	399	0	0
Strathclyde	1,323	20	732	90	481
Tayside	111	0	63		48
Orkney Islands	0	0	0	0	0
Shetland Islands	0	0	0	0	0
Western Isles	54	0	54	0	0
Scotland	2,761	74	1,818	140	729

Source: MSC Scotland

Finally, Table 6 shows that Grampian and Highland Regions continue to experience a disproportionate number of notified redundancies following the problems in the oil industry. In keeping with the generally more optimistic outlook and also reflecting seasonal factors, the number of notified redundancies has fallen by almost 1,000 compared with the previous quarter, most notably in manufacturing.