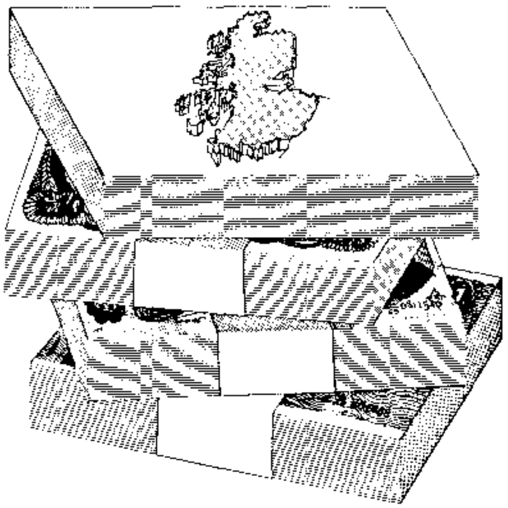
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

Taken together, the Scottish Chambers' Business Survey (SCBS) and the CBI's Industrial Trends Survey provide a good guide to current and recent trends in the Scottish economy.

The response base to the SCBS has been widened and enlarged. Tourism firms have been added to the manufacturing, construction, distribution and financial sectors already included. The geographical coverage has also been enlarged to include the Highlands and Islands, Borders, Central, Fife and Dumfries and Galloway regions and therefore incorporates the whole of Scotland. The Survey now also incorporates detailed labour market issues as well as business performance questions. The number of surveyed firms has been increased from 1,000 to 4,000.

The CBI Industrial Trends Survey provides information on manufacturing firms by size of firm and manufacturing sector.

This new, improved SCBS means that the number of respondents is many times that of the CBI's Industrial Trends Survey.

The October SCBS was conducted prior to the 1% reduction in interest rates and the UK's entry into the ERM. The CBI Survey was conducted at the time of the entry into the ERM.

SCBS

Optimism in manufacturing about the general business situation remained low with a net balance of -19% of respondents being less optimistic than they were three months prior to the Survey. The balance of optimism has been negative since May 1989. All areas were pessimistic with balances of optimism ranging from -43% in Central Chamber area to -9% in Edinburgh. Optimism in the Construction sector was also particularly low with a net of -18% of firms being less optimistic compared with the last 3 months and -24% compared with a year ago. Both wholesaling and retailing experienced a significant decline in confidence with both sectors recording net balances of -12% compared with the positive levels of optimism recorded earlier in the year. Tourism and Leisure was the most buoyant sector, with a net balance of +8% on business optimism compared with 3 months ago and +9% compared with one year ago.

The actual trend in sales and orders continued to be positive in all sectors except construction although the positive balances were lower than had been the case in previous Surveys. In manufacturing, the domestic Scottish market was the most buoyant; in contrast to previous Surveys in which sales to export markets had been the strongest trend. The decline in export sales reflects the high value of Sterling during the period of the Survey. Fife appeared to be the most pessimistic area in relation to manufacturing orders and sales.

Despite the low levels of optimism in both wholesale and retail distribution sales remained buoyant with only a slight deterioration in the trend from the previous quarter. The trend in sales was positive in all Chamber of Commerce areas in retail distribution ranging from a balance of +16% in Central to +60% in Dundee. In wholesale distribution no areas returned a negative balance of sales, however, in Dundee and Edinburgh the balance was zero.

In construction, orders from the public sector remained depressed and appear to have deteriorated from the previous quarter. Private orders represented the only positive trend with a net of +5% of respondents reporting an increase. Public sector orders were depressed in all areas with the exception of other public sector orders in Aberdeen where a balance of +23% of respondents recorded an increase. The trend in orders from the private sector was negative in Dundee, Edinburgh and Glasgow Chamber of Commerce areas.

The trends in expected sales and orders in relation to actual performance appeared to be down in construction, retailing, wholesaling and tourism, and broadly unchanged in manufacturing.

In the financial sector, respondents reported an upward trend in both personal and corporate advances, this was the case in all Chamber of Commerce areas. In the corporate sector, the trend in the demand for working capital was significantly positive with a net balance of +67%, whereas the trend for finance for buildings and for plant and equipment was negative; thus suggesting a slowdown in investment. The trend in the demand for capital rose for all industrial sectors and all areas with two exceptions ie manufacturing in Glasgow and other services in Edinburgh.

A balance of respondents indicated downward trends in total employment in construction, zero growth in retail and financial sectors and limited expansion in manufacturing, wholesale and tourism. All sectors are expecting a decline in total employment during the current quarter with the exception of retail distribution. Regionally, Aberdeen Chamber of Commerce area was the most optimistic in relation to labour demand in manufacturing. In retail distribution, Aberdeen was again the most optimistic, however, increases in part-time employment is expected at the expense of full-time employment in all areas with the exception of Fife Chamber of Commerce area. Increased employment levels are expected in all areas for wholesale distributors.

In contrast a general pessimism pervades construction in all areas except for Aberdeen where demand for all types of labour remains high. Similarly, employment levels continued to be depressed in financial institutions in all areas; there was a slight improvement in the trend in part-time employment in Glasgow an Edinburgh and for female employment in Edinburgh.

There was a general decline in the use of temporary, sub-contracting, agency and self-employed labour and all are expected to continue to decline.

Within manufacturing upward trends were indicated in employment in: chemicals; mechanical engineering; food, drink and tobacco; and electronics and electrical engineering. However, respondents in many sectors are expecting a decline in total employment. Despite these declining trends in employment, the majority of respondents in all sectors, except financial institutions, endeavoured to recruit staff over the past quarter. Most respondents reported difficulties in recruiting suitable employees and these difficulties increased despite the downward trends in employment. More than 50% of construction firms and 45% of manufacturing respondents reported difficulties in recruiting skilled manual employees. In several manufacturing sectors more than 65% of firms reported difficulties in recruiting skilled staff. The recruitment of young workers (16-24 year olds) was a particular problem in textiles, food, drink and tobacco, tourism and retail. These difficulties in the recruitment and retention of suitable labour contributed to the high proportion of respondents indicating increase in wages/salaries over the 3 months prior to the Survey.

CBI Industrial Trends

The October 1990 Industrial Trends Survey saw business confidence decline for the seventh Survey in succession. The balance of -37% compares to -3% in the July Survey and compares to -32% this time last year. All sectors of industry appear less optimistic than was the case in the previous Survey.

Despite the expectation of rise in demand, it continued to fall during the four months to October. The balance of -24% was the lowest since January 1983 and compares to -8% in the previous Survey. Domestic demand and new export orders both fell during the four months to the Survey. All sectors except for "other manufacturing" and "food, drink and tobacco" reported a decline in the volume of new orders. A fall in demand was indicated by all sizes of firms. Total order books of Industrial trends respondents remained weak. The balance of -31% of firms reporting order books to be below normal compared to -35% in

July and -12% at the same time one year ago.

Despite the anticipation of a marginal increase in the July Survey, output, on balance, fell. The balance of -9% was the first negative figure since January 1987. All sectors except for "other manufacturing" and "food, drink and tobacco" experienced a decline in output. Output also fell for medium and large sized companies. During the current quarter only medium sized firms, "engineering" and "food, drink and tobacco" expect output to increase.

A shortage of orders or sales remained the most frequently cited constraint on output during the current four months and was cited by 71% of firms. A shortage of skilled labour continued to increase in significance and was cited by 29% of firms compared to 18% in July.

Stocks of finished goods were built up further, despite July's expectation of some destocking; a decline in stocks of finished goods is expected during he current quarter. Stocks of raw material and bought-in supplies and stocks of work in progress were run down over the four months previous to the Survey and all are expected to continue to decline.

Fixed capacity remained, on balance, more than adequate to meet expected demand over the twelve months following the Survey. A balance of +20% reported their fixed capacity to be more than adequate in relation to expected demand. The proportion of firms reporting their present level of output to be below capacity rose from 40% to 44%.

Investment intentions in plant and machinery remained weak with the balance of firms indicating that they anticipate authorising less capital expenditure on plant and machinery over the next twelve months than in the preceding year. Increasing efficiency remained the most frequently cited reason for the authorisation of capital expenditure. Replacement remained the second most important factor. An inadequate return on proposed investment remained the most important factor likely to limit capital expenditure authorisation and was cited by 47% of firms. Uncertainty about demand was cited by 41% of respondents.

Manufacturing employment on balance fell at a faster rate than had been anticipated. The balance of -28% was the lowest since January 1987. The biggest fall in employment was reported by "chemicals". All sized groups and all industrial sectors expect a reduction in employment in the coming months.

The rate of growth in average costs per unit of output continued to pick-up with a balance of +48% compared to +40% in July. "Chemicals" continued to report the fastest rate of increase in costs. Unit cost growth is expected to moderate with a net of +44% of companies anticipating higher costs in the four months following the Survey. The rate of increase in average domestic prices picked up over the four months previous to the Survey; a further pick-up in the rate of prices increases is expected during the current four months.

Export confidence declined for Industrial Trends respondents with a balance of -24% compared to -3% in April. The sharpest fall in confidence was reported by "textiles". The volume of export orders declined despite expectations of positive growth in the July Survey. Export order books remained weak with a net of 36% of firms reporting export order books to be below normal. Export deliveries continued to fall and are expected to decline during the current quarter.

Export prices remained broadly stable; they fell for medium and large sized firms, "metals and metal manufacture" and "food, drink and tobacco" sectors. During the current four months the rate of increase in export prices is expected to pick up with a net of +11% of firms anticipating price increase. Prices remained the factor most likely to limit the ability to obtain new export orders being cited by 69% of firms. Political and economic conditions abroad were mentioned by 33% of companies.

Primary

AGRICULTURE AND FORESTRY

The dominant issue in the agricultural sector throughout the last quarter has been the proposals for reductions in European Community (EC) farm subsidies, as part of the Uruguay round of GATT negotiations. In view of the major potential importance of this issue, we concentrate exclusively on the questions surrounding subsidy changes in this section. Later in the section, the implications for agriculture in Scotland are investigated.

The Uruguay round of trade negotiations, which has been ongoing for four years, is just the most recent of a series of multilateral bargaining forum designed to liberalise world trade. By this is meant an attempt to ensure that the prices at which goods or services are traded across national boundaries reflect their real economic production costs. What makes the Uruguay round critical in this context is that agriculture has become the lynch pin of present negotiations.

Whilst, in general, international trade has become more liberal in post-war years (that is taxes and/or subsidies have typically been reduced) this trend has not been followed in agricultural trade. For a variety of reasons - political, social and economic - farm sectors have been regulated administratively and supported financially, particularly within the European Community and the USA. Whilst not necessarily being designed to achieve unfair advantage in export markets or to discourage imports by tariff barriers (although this certainly has been true in several instances), the effect of farm support schemes has been to distort world farm trade considerably.

The European Community is one of the heaviest agricultural sector protectors in the world economy, and it has come under increasing pressure to accept swingeing cuts in various measures of support. This has come from developing countries, unable to find world markets for cheap food, from the Cairns group of food exporting countries (including Australia and New Zealand) and from the USA more recently, as the US government seek to reduce its large federal budget deficit.

On 7 November 1990, the EC farm minutes agreed to reduce farm subsidies by 30% from 1986 levels (equivalent to a cut of about 15% relative to 1990 levels), and this package is now being offered to the GATT meeting. This offer, however, falls well short of the 75% cut in agricultural support in general being pressed for by the USA, and the 90% cut in specific export subsidies being demanded by the USA and Cairns group. Whether the offer is accepted remains to be seen, and it is not yet clear whether ANY agreement will be obtained in the present round of GATT talks.

At the root of the reluctance of EC negotiators to offer larger support cuts is the failure of the Common Agricultural Policy to deal properly with food surpluses. These surpluses have traditionally been off-loaded on to world markets by means of export subsidies. It is difficult to see how the subsidy schemes can be dramatically reduced until excess production in Europe is eliminated. Butter and beef, together with sheep meat are re-appearing in large excess stocks ("foothills" as they are now being dubbed) and cereal output appears to be on the way back to substantial surplus levels.

The farm support within the EC is extremely expensive to European consumers and tax payers; prices are maintained well above free market levels, and the current fiscal cost amounts to about ECU 90 billion per annum. To most economists, the EC CAP and its farm support measures are very difficult to justify, with the difficulty facing European governments being seen as one of how to readjust farm policy in a way that minimises disruption and its associated costs. Associated with any reorganisation will of course be implications for rural communities in those rural areas where farm productivity is lowest, and which will tend to be rendered least commercially viable as support is reduced. It is this inter-relation between regional and social issues on the one hand, and the broader question of the allocation of resources into farming on the other hand, that makes this issue so difficult to resolve.

On the assumption that substantial subsidy/support reductions are agreed, what will this mean for farming in Scotland? As has been described above, those farmers whose profitability is already precarious will feel the greatest pressures. So a large proportion of upland hill farming faces severe problems. The so-called "less favoured areas" in Scotland, which currently enjoy substantial support, may lose much of this. These longer term threats come on top of a serious short term cyclical crises for Scottish livestock and crofting farmers, which prompted Mr John Ross of the Scottish National Farmers Union to write an open letter to Mr Malcolm Rifkind in September of this year. In that letter, Mr Ross claimed that a typical hill farmer (with 546 ewes and 50 breeding cows) might expect an annual income fall from £9,700 in 1989 to £3,500 in 1990. (It should be stressed that these figures were on the basis of factors separate from those related to EC subsidy cuts under GATT auspices.)

A major question is thus raised over what value we as a community place on maintaining traditional occupational structures and lifestyles in Scottish upland areas, and how we intend to support such communities. It may well be appropriate now to clearly separate such a valuation (and its associated financial support) from farm policy per se. Farm policy is attempting to deal with three distinct targets (resource allocation into farming, rural development and conservation) with one policy instrument (agricultural income support); and as is well known, it is not in general possible to efficiently pursue three independent targets with a single instrument.

One measure that needs serious consideration is a return to income support for farmers rather than price support for products. In this way, a given total budget can be allocated more equitably, and the distributional implications be made far more open. However, any scheme must address the question of how to take resources out of agriculture in ways that are politically acceptable. EC CAP policy has removed the discipline of the market which would normally do this - what government appears unwilling to do is to accept that if it chooses to prevent bankruptcy from being the force driving reduced supply, it must implement such reductions administratively.

A common argument these days has come to be that product price support should be transferred to conservation payments, linked to withdrawing land from commercial crop growth and attaining other environmental objectives. The danger of schemes of this sort however, is that in attempting to achieve two objectives simultaneously with a single policy instrument, neither may be performed satisfactorily. It is urgent that the political process somehow make explicit a number of questions, and attempt to develop an answer on the extent to which they should be developed. These include: what practices constitute conservation? Where should conservation efforts be focused? What constitutes sound environmental management? How much are we willing to pay to achieve this? By what means can we measure and monitor environmental improvement?

Until these questions go some way to being addressed, let alone answered, it seems difficult to support schemes which replace traditional farm support by conservation payments to farmers.

FISHING

The most recent available information on fish landings into Scotland is provided in Figure 1. For the first eight months of 1990, the value of total fish landings into Scotland was almost £180 million, which represented a ten percent increase on the equivalent period in 1989. The quantity of fish landed was lower (by eight per cent) but the average price increase of 20% more than offset the volume fall.

All categories of fish (demersal, pelagic and shellfish) showed price increases, with the white fish (demersal) species showing very large price increases. It appears that these price increases are boosting profitability in the fleet components of the fishing industry, and are preventing the decline in fleet incomes expected by fishermen from being realised. A perusal of the price figures for pelagic species shows that in most cases, prices rose strongly, although it should be stressed that the price changes shown are nominal changes, with average inflation of approximately ten per cent occurring during this period.

Rising profitability for fleet owners does not appear to have been shared by the processing industry however. It appears to be the case that processed fish prices have not risen at a rate sufficient to prevent a squeezing on processing incomes. Whether this is a temporary feature of a market in rapid transition or indicative of a longer term trend is too early to say.

Construction

The latest Scottish index of production and construction clearly show that Scotland has been unable to escape the down turn that has befallen the rest of the country. Any feelings of complacency disappear when one looks at the second quarter's 13.6% fall to 97.4. This seems to indicate that the first quarter figure of 112.7 was a peak as the general feeling is that the third quarter figure will show a further drop.

The UK figure for the second quarter is 124.8 and is 1.2% down on the same period in 1989. It is clear from this that although lagging behind the UK, Scotland is now feeling the pinch.

The new Scottish Chambers' Business Survey (SCBS)

FIGURE 1 FISH LANDINGS IN SCOTLAND: JANUARY TO AUGUST 1990 - COMPARED WITH JANUARY TO AUGUST 1989

	Jan to Aug 1990			90 as % of 89		
Landings by UK vessels	Weight Tonnes	Value £000	Price £/T	Weight %	Value %	Price %
Demersal	128,420	124,037	966	86	116	136
Pelagic	126,542	14,935	118	108	116	107
Shellfish	24,503	37,113	1,515	82	94	114
Cod	28,360	33,644	1,186	108	132	123
Haddock	32,734	39,066	1,193	69	98	143
Whiting	16,538	13,811	835	97	133	136
Dover Sole	36	125	3,492	90	88	98
Hake	1,089	2,135	1,961	95	132	138
Lemon Sole	2,029	3,299	1,626	117	133	114
Megrins	1,592	2,000	1,256	94	127	135
Monks	6,071	12,375	2,038	107	125	116
Plaice	4,611	3,553	771	113	147	130
Saithe	7,741	3,502	452	99	116	117
Skate	2,203	1,451	659	99	122	123
Norway Pout	0	0				
Sandeels	17,004	769	45	70	82	117
Mackerel	62,567	7,657	122	146	153	105
Herring	57,517	6,959	121	86	92	106
Brown Crabs	2,411	1,996	828	74	83	111
Green Crabs	193	86	446	68	73	107
Velvet Crabs	680	1,325	1,949	82	81	99
Lobsters	375	2,782	7,419	113	101	89
Pink Shrimps	363	386	1,063	78	70	90
Squid	460	598	1,300	49	37	77
Scallops	2,947	5,045	1,712	94	96	103
Norway Lobsters	11,273	23,089	2,048	84	100	119
Queen Scallops	2,850	919	322	109	105	97
Total by UK vessel	279,465	176,085	630	94	111	118
Landings by foreign vessel	11,551	2,387	207	58	78	135
Total landings in Scotland	291,015	178,471	613	92	110	120

Source: Scottish Office

now covers all of Scotland and in greater detail than previously as highlighted earlier in this Commentary. A balance of optimism figure of -18 was reported by respondents, when comparing their feelings of the present* business situation with the situation three months ago. The balance figure, when comparing with a year ago is -14% ie a net balance of 14% of respondents are less optimistic about the present business situation than they were one year ago.

Central Chamber of Commerce area had a balance of -40% the most pessimistic reported, whereas Aberdeen Chamber of Commerce area (the star performer of the previous SCBS) returned a balance of +8%, still the best, but showing that the sector is not as buoyant as it was in the previous quarter. Total new orders are down for the period prior to the Survey for a balance of -5% of respondents but are expected to be down in the next quarter for an even larger balance of -19%. There is a wide range of balances reported throughout the Chambers of Commerce areas, for new orders ranging from +40% in new private orders in Central Chamber of Commerce area to -67% for new orders from both central government and other public sector new orders, also in Central Chamber of Commerce area.

The trend in expected new orders for the next three months, with the exception of Central Chamber of Commerce area's positive balance of 20%, is entirely negative, with Dundee Chamber of Commerce area reporting a balance of -72% for expected orders from central government. The all chambers (ie Scottish sample total) balances for expected new orders from central government, other public sector and private sources are -42%, -34% and -9% respectively.

Trends in employment are also negative. However, 61% of respondent firms attempting to recruit in the three month prior to the Survey and 18% of all firms experiencing difficulties. The reported skills shortages were mainly in the areas of skilled manual; technical labour, and professional and managerial.

A balance of reporting firms state that investment intentions are being revised downwards for both plant and equipment and buildings for 8% of firms in the three months prior to the Survey and for 16% and 17% respectively for the three months after the Survey. Thirty four per cent of firms were investing for reasons of replacement whilst 17% were investing in order to increase efficiency and 14% wished to expand capacity.

Wages and salaries have been increased for 56% of respondents in the three months prior to the Survey.

We now turn to new orders received by contractors in the building industry for the second quarter 1990 and the same period one year ago, both for Scotland and the UK as a whole. Public sector orders are down by 9.9% in Scotland over the same period a year ago and for the UK as a whole they are down by 30.1%, to £145 million and £1378 million respectively. In Scotland there has been a reduction of 75% in public transport and energy supply to £3 million a fall of £9 million, which is the same amount as the fall in new public sector housing of 36% to £16 million. New public sector orders for the Scottish health sector fell by 62.5% to £6 million whilst the UK as a whole experienced a fall of 67.1% from £380 million to £125 million. New orders for water and sewerage experienced a 100% increase in Scotland from £7 million to £14 million. This contrasts dramatically with the UK as a whole where new orders in this sector fell by 68.7% from £112 million to £35 million.

The private sector was slightly more buoyant with the commercial sector taking the brunt of the decline in new orders in the second quarter of 1990. Scottish private sector housing new orders increased by 36.7% from £139 million to £190 million in the second quarter of 1990. Over the same period Scottish industrial and commercial new orders fell by 6.7% and 30.8% respectively. The corresponding UK figures are +19.3% and -15.5% for industrial and commercial new orders respectively. UK new orders for private sector housing were down 25.5% on the year, to £1403 million from £1908 million last year.

Looking briefly at the supply of raw materials for the construction industry, brick production is down 12.1% for Scotland and 11.4% down for Great Britain as a whole in the second quarter of 1990 compared with the second quarter of 1989. This figured is better than is the case when one looks at stock holding, which has increased by 100.1% and 84.5% respectively for Scotland and GB over the same period. Concrete block production is down over the same period, by 19.3% and 18.4% respectively for Scotland and GB as a whole.**

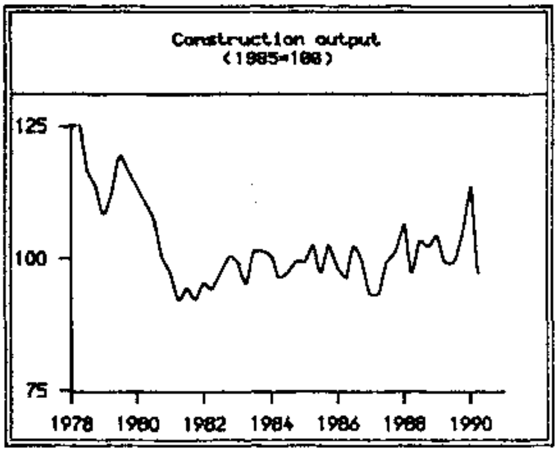
There is a considerable divergence in the house price changes reported by the Nationwide Anglia and Halifax building societies for the third quarter of 1990. They give figures of +2.7% and +1.9% for the quarter and +1.6% and +9.7% for the annual change respectively. The Halifax index is one of the most accurate indicators of residential property prices. The annual house price inflation of 9.7% puts Scotland in second place only surpassed by Northern England with a figure of 10.8%. The reason for the difference between the Halifax and the Nationwide Anglia, is that the Nationwide Anglia prices are unweighted and are therefore affected by changes in the sample from quarter to quarter, whereas the Halifax indices are base weighted to take into account the changes in the monthly property mixes. However, it is fair to say that the rate of increase in Scottish house prices will decline in the next six months. It is unlikely that house prices will fall in nominal terms and providing there is some further downward adjustment in interest rates the market should start to pick up again by the end of 1991. It is expected that Scotland will lag behind the South when the market does pick up.

The latest Building Employers Confederation foretells of a loss of around 50,000 jobs by the end of 1990 in England and Wales. Over 30,000 homes will have to be sold before the situation improves for private housebuilders.

The Scottish Building Employers' Federation (SBEF), in their latest survey say that 20% of builders have reported a drop in business this year and less than 10% expect their workload to increase in then next 12 months. The speed of this change is obvious when one considers that the same survey in June was showing that only 10% of firms reported a drop in business and a quarter said that they expected more work within the year.

One swallow does not a summer make and likewise one quarter's poor showing does not mean a full blown recession for the Scottish construction industry; although the proponents of the notion that Scotland can somehow escape are few in number and getting fewer. One such is Bob Campbell, director of SBEF who says that a Scottish recession will depend on factors like the strength of the Scottish economy and the effects of interest rate changes. He highlights Scotland's smaller and more stable housing market which has been more buoyant than the rest of the UK recently.

Lynch Homes of Ayrshire have laid off 30 workers as a result of a 7% fall in sales. It has been announced by the government that Scottish sales of Public sector houses have now exceeded the 200,000 mark. This now means that more than 50% of Scotland's homes are now owned by their occupiers.



The Government has also made available an additional £27 million for 52 local authorities to spend on housing this year as part of their capital programmes. As part of this Glasgow District Council will have £3.6 million to speed up their Community and Area Renewal Programmes and to provide additional resources in Housing Action Areas and in connection with the Care and Repair Initiative. Edinburgh District Council has been given £2.75 million for their Orbit Housing Programme. Dundee District Council will benefit by £800,000 and Renfrew District Council by £425,000, the latter for their Home Comfort Programme. This additional boost to spending may go some little way towards bucking the downward trend in housing activity in Scotland.

* Present: Refers to the Survey month. In this case September.

** Source: Building Materials Producers (BMP) - Scottish Statistical Bulletin.

Energy

OIL AND GAS

With no resolution to the Gulf crisis, world oil prices have remained high and volatile, with reference Brent crude trading at anywhere between \$30-\$40 plus pb, depending on whether fears of actual hostilities have increased or receded. The rapidity of price changes, and the speed of their transmission through the system, is a reflection of the fact that most trades are now made in the spot market (ie deals on oil for 'immediate' delivery, whereas a decade ago, the forward market was predominant (ie fixed-price contracts for oil deliveries up to three months in the future). Arguably, the forward market system enhanced short-term price stability at the expense of allowing the price mechanism to efficiently eliminate short-term supply/demand imbalances, while the spot market does the reverse.

Based on a 'no change in the Gulf' scenario, OPEC has projected fourth quarter oil demand at 54.5mbpd and oil production of 52.7 mbpd. Somewhat more recently, the International Energy Agency (IEA) has, on similar assumptions, predicted fourth quarter oil demand and supply of 54.1 mbpd and 53.4 mbpd respectively. The key point is that both forecasts imply that stockholdings of crude will have to be run down by between 0.7-1.8 mbpd. The only major stockholders are (a) governments of industrialised countries, 21 of which are represented by the IEA, and (b) private oil companies.

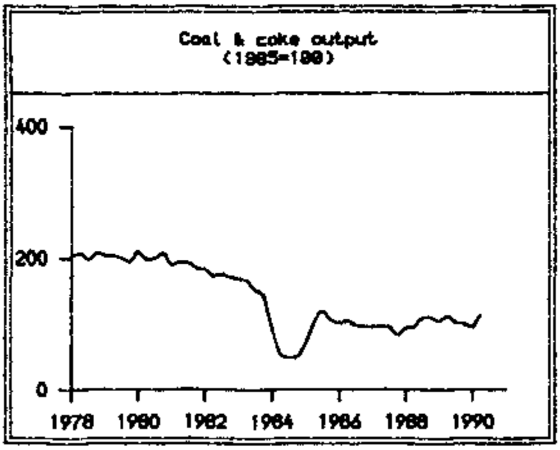
Thus far, with the exception of one intervention by the USA, industrial country governments have been notably reluctant to release any of their strategic oil reserves. If this policy continues, then all the de-stocking will have to be done by private companies. However, these companies normally wish to increase oil stocks at the onset of winter in the Northern hemisphere, and, particularly this year, companies (like governments) will seek to maintain stocks as a precautionary measure against further disruption in Gulf supplies. Hence, in order to persuade companies from an initial desired position of stock increase to one of stock decline, the current price of oil will have to remain sufficiently high relative to their expectations of future prices to make this a commercially attractive proposition. Given all the factors presently involved, this may well see fourth quarter prices remaining in the \$30-\$40pb range.

In the North Sea, the Royal Bank/Radio Scotland oil index for September was 107.4 representing production of 1.7mbpd. In volume, this was an increase of 2.3% from August, but was 11.8% less than in September 1989. However, the Gulf-inspired increase in crude prices saw a marked rise in the daily value of crude from £16.8 million in July to £32.0 million in August.

Oil industry analysts are optimistic about future levels of activity on the UKCS. These projections are not dependent on a continuation of the Gulf crisis, but clearly events there can only enhance the attractiveness of less politically volatile oil provinces. A Department of Energy survey of oil company intentions suggests that up to 57 new North Sea field developments could take place over the next few years, and that offshore expenditure could be £4.7 billion in 1991 and £4.8 billion in 1992 - the highest levels since the 1970s. This increase in offshore activity should benefit the onshore oil-related sector, and Ian Wood of the Wood Group has suggested that an additional 5-7,000 jobs could be created in Grampian as a result. However, a question which remains to be answered is whether the UK oil supply sector has the productive capacity to meet this rapid increase in demand, especially in view of increasing overseas competition.

ELECTRICITY, NUCLEAR AND COAL

The position in the energy industry is overshadowed in the short term by electricity privatisation. The longer term picture is most strongly affected by the growing realisation within parts of the industry that a formalised energy policy is required.



The open market for large electricity users should mean a price fall to these companies in 1990, according to the stockbrokers advising the government on the privatisation in Scotland. This inevitably means lower profit margins to the suppliers, though these are projected to increase by 1995, when the cheaper Miller field sour gas and greater electricity export capacity will be available. Coal prices are also expected to fall by this time. 1994, however, will bring a loss in profit, when the limit on competitive supply will fall from firms using 1MW per year to 0.1MW. The present profits erosion is seen as hitting Scottish Power harder than Hydro-Electric.

The same report said that greater efficiency and profit-orientation were required in the Scottish power industry and that this was likely to lead to job losses at Scottish Power.

On the eve of the start of electricity privatisation, the regulatory environment is still evolving. The regional electricity companies, formerly referred to as distribution companies or 'discos', are now to have their purchasing policies and independent power projects to be investigated by Offer, the industry regulator, in 1993. This is one year in advance of the investigation of the industry's price control formula. The aim of this move is to prevent cross-subsidisation of new generating projects from higher prices charged to captive local consumers. This is especially relevant to Scotland, where the presence of surplus capacity effectively prevents independent generating companies from challenging the integrated suppliers.

The electricity industry is thought by outside commentators to require some £6bn investment over ten years to reduce acid rain related emissions. However, the industry itself disputes the costs required to meet the government's emission targets. These are given as a percentage of 1980 levels: 90% by 1993, 60% by 1998 and 40% by 2003. Although the electricity industry produces 70% of the UK's sulphur dioxide, other industries have stiffer percentage targets. Similar targets have been set for nitrogen emissions.

The implication of these targets is that existing coal power stations require scrubbers and that, where this is not economical, these should be replaced by gas-turbine plants. Scotland would seem to require investment in emissions-control plant at either Longannet or Cockenzie. Scottish Power are, however, not committed to what could cost between £300m and £400m.

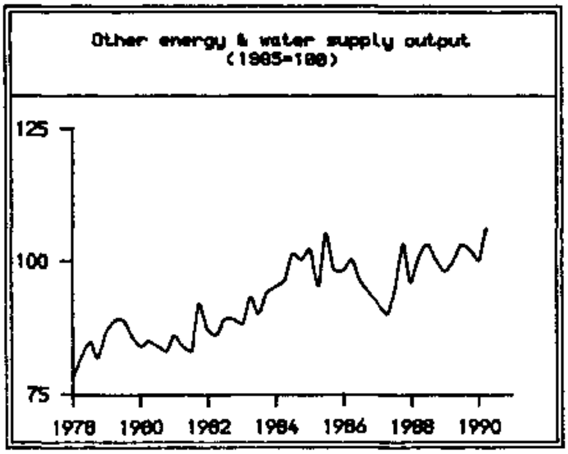
Scottish Power therefore see a conflict between their need to respond to the market and the long-term requirements for coherent energy plant development. From their point of view, without an explicit energy policy, there is no structure for compensating the industry for following government requirements on fuel mix and discharges.

Scottish Power have agreed a project to provide electricity for the London Underground in conjunction with the German electrical utility Veba. The consortium will replace the Underground's two centrally located power stations. Since the two new generators will produce more than the Underground requires, the remainder will be sold on the premium central London market.

National Power, the larger of the two generating companies in England and Wales, is involved in talks concerning the development of a 9MW windpower park at Fenwick Moor near Eaglesham outside Glasgow. The SDA and the National Engineering Laboratory at East Kilbride are collaborating. The reason for this geographical incursion is that generators south of the border need non-fossil energy to meet their Non-fossil Fuel Obligation (NFFO). The site chosen is considered the optimum for windpower. Given Scotland's preponderance of nuclear power, non-fossil fuel generation is less important to the Scottish suppliers. Therefore, although Scottish nuclear power is subsidised, while that in England and Wales is not, the different institutional structures reduce the incentive for the Scottish generators to develop renewable energy resources.

British Coal made a loss of £441m in the year to April, the worst results since the 1984/5 coal strike. The operating profit was down 73% at £133m. Within this, the Scottish coalfield lost £15m, a deterioration of 74%. Longannet, the last deep mine, was said to be breaking even. The mothball condition of Frances and Monktonhall pits was to be reviewed, as this was costing £2.5m pa.

The outlook for this financial year was seen as better, as the reasons given for the poor previous performance were transitory: geological problems, a mild winter, industrial disputes and low productivity growth while costs rose in nominal terms. It should be noted in this context that coal prices to electricity generators are effectively frozen in nominal terms. The better climate for coal is illustrated by proposals to open a new Scottish open-cast pit.



The Dounreay demonstration fast reactor is currently due to shut by 1997. In order to keep the reactor open, it is being developed as a commercial facility to reprocess experimental, difficult and faulty fuel from sources outside the UK. Few comparable facilities exist elsewhere in the world.

Scottish Nuclear, which is to remain in government hands, made an operating profit of £35.9m and a loss before tax of £189.9m in the year to 31st march. The firm sees their priorities as obtaining lower reprocessing fees and cheaper decommissioning costs. As a result, they are attempting to negotiate fixed-price reprocessing contracts with BNFL, in conjunction with their counterparts south of the border, Nuclear Electric. Reductions in costs are seen as required before the 1994 nuclear policy review. However, the Torness AGR will be on half power until 1992 at the earliest, while the fuel supply mechanism is redesigned and rebuilt.

The pro-nuclear lobby have produced an array of figures in response to the House of Commons select committee report, considered in the last Commentary. Hunterston A, a Magnox plant, was in the top ten technically performing nuclear power stations. It was closed because there was no market for its power output. The Hunterston B AGR has a 77% load factor, better than most English nuclear power stations. The nuclear subsidy regime is, of course, designed to permit nuclear operation at costs, especially of Magnox plants, much higher than modern gas-turbine technology. The Swedish experience, in which a country which wished to turn away from nuclear technology found itself unable to do so in the short term, is not directly applicable to the UK: even in Scotland, the nuclear industry has less efficient technology than in a number of other countries. A further problem facing the nuclear industry remains the disposal of radioactive waste.

The solutions to energy-environmental problems can be found without significant economic damage. The problem is to obtain the political momentum required to implement carbon taxes or alternatively to obtain support for low-carbon technologies. This is the view taken in a report published by the Royal Institute of International Affairs, Energy and Environment Programme: 'Energy Policies and the Greenhouse Effect', written by Michael Grubb.

The main tool to obtain low carbon output is seen as energy efficiency. This may even have economic benefits. There is no necessary trade-off between economic growth and the environment. Carbon taxes will help promote efficiency in both supply and demand. They will help move the fuel mix toward low carbon fuels and are not seen as damaging economies. These policies would entail a move away from coal and toward gas. Renewable energy resources are seen as a better prospect than even state-of-the-art nuclear technology. Energy utilities will evolve toward being energy service and co-ordination companies.

At present, the lack of explicit energy policy is preventing the challenge outlined in the report from being met in the UK. As this Commentary has shown, the energy market being set up in Scotland produces economic messages, prices, that do not reflect the full social cost of energy production and use. After privatisation, the integrated companies will have the profit incentive to drive them toward increasing sales and no incentive to stress energy conservation.

Manufacturing

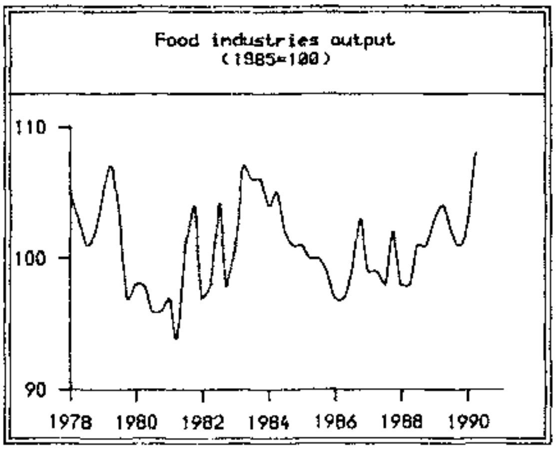
FOOD, DRINK AND TOBACCO

The second quarter index of production for the Scottish food industry stood at 108 showing a 5%

increase from both the first quarter figure and the 1989 average. It was 4% up on the same time last year. In contrast, the UK index was 105 exhibiting a decline of 1% from the 1990 first quarter and remaining unchanged from the 1989 second quarter. This is the first time since 1986 that Scottish food production has overtaken that of the UK.

The drink and tobacco index for Scotland in the second quarter was 114, the same as that for the UK. This represented a 4% increase from Q1 in Scotland and a 6% increase in the UK. The Q2 index for Scotland in 1989 was 110 and for the UK it was 108. The 1989 Scottish average was 106.

The large increases in the output of the food and drink and tobacco sectors has highlighted their continued buoyancy in the face of a UK recession. The results of the latest SCBS add to the picture of a sector which is still growing. A small but positive balance of 5% of responding firms were more optimistic about business than three months ago with the majority (61%) no more or less optimistic. A net 4% were more optimistic than in the same period one year ago indicating that the pessimism which has overcome other sectors in the past year has not yet affected food, drink and tobacco manufacturers.



The trend in the value of new orders and sales has been upwards over the past quarter with export orders having done particularly well. Sales to the UK were most buoyant but all categories of orders and sales are expected to do well over the next three months.

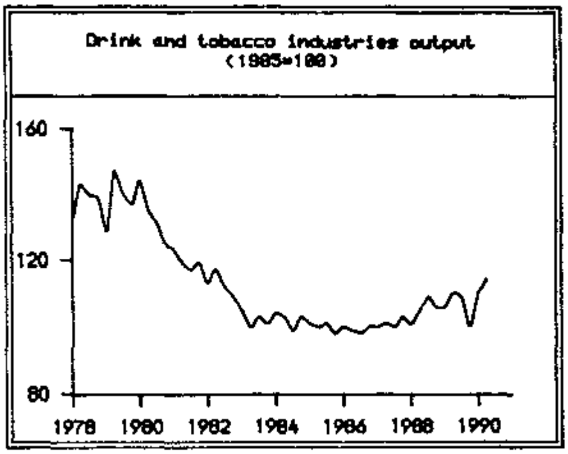
Current capacity utilisation is 77% and a net 20% of firms reported that capacity utilisation has increased over the past year. Investment intentions have been raised for plant and equipment but lowered in relation to land and buildings - this is expected to change over the next three months when a balance of 11% of firms expect to raise investment in land and buildings.

Total employment increased over the last quarter for a balance of 23% of respondents and a net 22% expect this to continue. Temporary employment has declined over the past three months whilst a balance of 25% of firms have increased full-time employment. A further sign of an optimistic sector is that overtime working has increased and short time working declined on balance. Both of these trends are expected to continue. 71% of companies have attempted to recruit staff over the past three months and it has been found that most recruiting difficulties have occurred in relation to technical and skilled manual workers. This adds further weight to the suggestion that skill shortages are becoming more generalised throughout the Scottish economy.

The last quarter has seen a number of brewing and distilling companies buying, selling or taking shares in other concerns. Guinness is one such company. It has bought Greene King's 25% stake in Harp Lager for £6 million and is now in control. This happened only days after the Guinness chairman made it clear that Guinness would not be merging with LVMH. Guinness and LVMH each have a 25% share in the other.

Harp was initially owned by a number of brewers including Guinness, Scottish and Newcastle, Courage and Bass. Over the years, however, ownership has changed. In 1979 Scottish and Newcastle sold its stake but agreed to brew Harp under licence in Edinburgh in 1984. Since then Guinness has owned 75% of Harp with Greene King owning the other 25%. Harp has a 4% share of the UK lager market making just under £4 million in profits each year, while Guinness has just reported increased pre-tax profits. They have risen by 31% from £246 million to £322 million.

Suntory has doubled its stake in Allied-Lyons to 5% at a cost of £85 million. It is not likely to increase its share further and is holding the new shares under the same conditions as before. Allied has a 1% share in Suntory and reported that the joint venture boosted profits in the first year of operation. Courvoisier brandy is selling very well in Japan as has Ballantines, Canadian Club and Kahlua.



Whitbread is selling its 50% share in European Cellers (Holdings) to Hiram Walker-Allied Vintners. Last December Allied acquired a large proportion of Whitbread's wines and spirits division for £545 million. The deal has yet to be approved by the Office of Fair Trading.

Regular Commentary readers will be aware of the "pubs for breweries" swap in the offing between Elders and Grand Metropolitan (who incidentally have also agreed to sell 150 pubs and restaurants to Whitbread for £115 million). This has now been given the go-ahead by the Office of Fair Trading after amendments were made to the original deal involving an assets exchange worth £2.6 billion. Grand Met is selling its brewing and beer distribution to Courage - an Elders subsidiary - for £366 million and 4,940 Courage and 3,570 Grand Met pubs will be merged to form Inntrepreneur Estates. Grand Met will lease 320 pubs from Inntrepreneur and 1,500 Inntrepreneur outlets will be sold. Inntrepreneur pubs will only be tied to Courage supplies for seven years instead of ten and suppliers of Courage beer to Grand Met's remaining pubs will last for only four years. In addition, the proportion of Grand Met and Courage pubs in any one area should be below 25% by 1992 and 20% by 1996.

A recent report has shown the problems likely to be faced by Scottish food producers after 1992. It highlighted the fact that much of Scottish food exports are primary products which have little value added. Greater processing increases value added which creates more jobs and increases profits.

Size is seen to be another major problem with many food firms having a turnover of less than £1 million and fewer than ten employees. This is likely to be problematic especially after 1992 because of the demands placed on firms. These include:

1. The UK Food Bill which raises safety and hygiene standards. To comply with this will raise overhead costs.

2. More competition will be experienced from larger companies who have implemented new production technology - this is only worth while if you have a large output yet without it a small firm is uncompetitive.

3. Larger distribution firms are increasingly more professional and expecting the same level of professionalism from their suppliers. Smaller firms are often not able to devote the time or the staff to cultivating relationships with the large multiples.

4. Consumers are now looking for a greater variety of products and for much higher standards in production e.g. fewer additives and preservatives in ready cooked meals. But marketing new brands is costly and they often fail - only 3% of new food products succeed. This places smaller producers at a disadvantage.

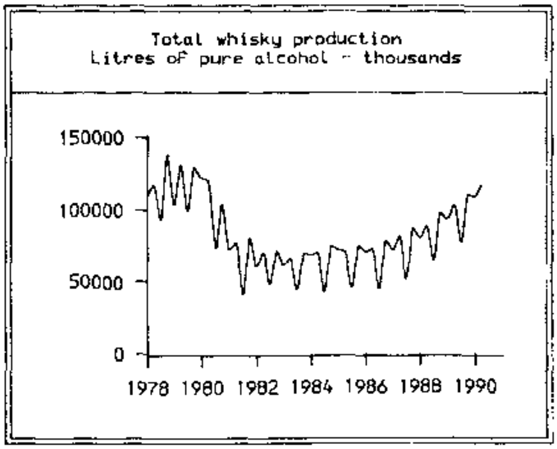
5. Scottish companies do not seem to be gearing up to take advantage of the opportunities offered by the European Single market. This may again be related to size.

The report concludes that growth is one answer to these problems and shows that Scottish food companies are keen to invest in expansion but even this is fraught with difficulties without the expertise to invest wisely. Many firms are also unable to grow enough to achieve the economies of scale which would support implementation of the above points. A proposed solution to this is to merge or be involved in joint ventures with other companies before being squeezed out of the market.

British food processors are also facing problems as a result of the Uruguay Round of the GATT talks. It is feared that food processors may lose the export rebates they receive as a result of having to pay higher raw material prices because of the Common Agricultural Policy. The industry will be less competitive if export rebates were cut more than domestic subsidies as the US has been asking. It is feared that 30,000 jobs will be lost if these changes are implemented.

WHISKY

In last March's Commentary it was mentioned that there was some disagreement between the Scotch Whisky Association and H M Customs & Excise about production levels of Scotch whisky for the third quarter of 1989. This was only recently resolved, with total production for the year now revised to 385.5 million litres of pure alcohol (LPA), 16.8% above the 1988 figure and the highest annual production figure for a decade. This upward trend in production has carried over into 1990. Total production for the second quarter stood at 118.0 million LPA, 14.5% higher than in the second quarter of 1989.



By contrast, exports continue on the slight downward path which has been evident since the middle of last year. Total exports for the first nine months of 1990 were 167.1 million LPA, 1.7% lower than for the corresponding period in 1989, and 2.5% below the 1988 level. This fall is totally accounted for by a 14.6% decline in exports of bulk blended whisky; indeed, exports of bulk blends are now running at 34% below the level of 1985, the year in which export volumes bottomed out in the 1980's recession. Bottled-in-Scotland blends, by contrast, show a marginal rise in exports over the year to September, at a level of 118.2 million LPA.

The last quarter has seen continuing successes for Highland Distilleries. In October the company revealed annual pre-tax profits of £24.7 million, an increase of over 26% on the 1989 figure. In a declining home and static overseas market, Highland succeeded in increasing UK sales of the Famous Grouse by 6% and exports by 22%; Grouse now has 12.4% of the UK market, number two to Bell's.

Although massively successful in the UK, The Famous Grouse has never been a really major seller abroad, and only 23% of the brand's total sales are exports. This should now change following Highland's payment of £76 million for a 25% stake in Orpar, the holding company for Remy Cointreau. This deal suits both parties very well. Following years of intra-family feuding, Remy is keen to maintain its strategy of diversification from its traditional cognac base, and sees Highland's whisky brands as another useful way of doing so. For Highland, the deal cements a relationship begun two years ago when Remy very successfully took over the distribution of Highland's brands in France, and should see further export opportunities for The Famous Grouse and Highland's two malt whiskies. As a by-product of the deal, Highland will purchase Glenturret distillery at Crieff, a return to Scottish control for this distillery which was bought by Cointreau in 1981. Another company entering into a new joint venture is Invergordon Distillers. Invergordon has been involved in the production of neutral spirit for several years, and this level of involvement will increase with the building of a new distillery in London in partnership with Tate & Lyle and CIP of Luxembourg. A new company, Greenwich Distillers, has been created to operate the distillery, which is expected to begin production in 1992.

METAL MANUFACTURING

This quarter has brought further bad news for the beleaguered Scottish steel industry with the announcement of the closure of the Clydesdale Tube Works at Bellshill. The slowdown in world economic activity widely expected during 1990 has been exacerbated by the shock to oil prices engendered by the Iraqi invasion of Kuwait in early August. All analysts expect the consequent higher real oil price to moderate both world output and trade over the short term. The difficulty for forecasters is that the possibility of military conflict provides a series of inponderables with respect to the short term evolution of crude oil prices. A Gulf War would both deepen and lengthen the present world recession and pose severe problems for the fragile economies of Eastern Europe and Latin America. The world steel industry will be seriously affected in either a war or prolonged stalemate scenario and the future course of both steel output and prices is particularly uncertain at this point in time.

An oil price shock operates by redistributing national output from net oil importers to net oil exporters and will depress would demand in the short run if the gainers do not increase expenditure at the rate at which the losers expenditure is forcibly reduced. In addition, oil importers may be forced to tighten monetary and fiscal policy in order to damp down the inflationary pressure engendered by oil price shocks.

The direct effect on steel industry costs will be small compared with the 1974 and 1980 oil price rises. All major steel companies embarked upon energy conservation strategies especially in the early 1980s in the wake of the second OPEC shock. Thus, investments in con-cast, increased recycling and use of producer gases and computerised control of blast and steel furnaces have substantially lowered energy consumed per unit of steel produced over the 1980s.

The threat to steel production emanates from the demand side of the market. The oil shock is confidently expected to moderate growth and trade and this may present the main difficulty facing steel makers. However, in all industrial countries, steel consumption per unit of national output has also declined markedly since the 1970s and early 1980s. Thus, for a given permanent rise in oil prices, the effect on both supply and demand will be significantly less strong than in previous oil crises.

As noted above, it was our expectation that steel output growth would moderate and decline during 1990. The latest production data from the International Iron and Steel Institute (IISI) indicates that, in the pre-oil shock January-July period, EC steel production fell to 81.7 million tonnes. This compares with 84.2 million tonnes produced in the first 7 months of 1989 and constitutes a 2.9% decline across the 2 periods. Steel production has fallen in 7 of the 12 EC member states and both price and margins have weakened portending a period of declining profitability for EC producers. The variations in fortune across the Community are marked. The greatest period to period declines were experience in Denmark and the FDR where decreases in excess of 7.0% were recorded. Production in Holland and Luxemburg is 5% lower in the first 7 months of 1990 than the corresponding period in 1989 whilst the UK and Spain recorded declines of 4.7% and 3.5% respectively. Italy was the only major community steel producer to experience output growth as production increased by 1.6% to 15.7 million tonnes.

The IISI forecasts that EC production will decrease by 2.2% in 1990 and that prices will weaken. In particular, the IISI note that the price of flat products, ie strip, plates etc., has declined by between 10-18% this year. A major source of weakness for strip products arises from the motor vehicle sector. Declines in new vehicle registrations are evident in North American and European markets. Any further rise in oil prices would provoke further falls in construction, investment in plant and buildings and consumers expenditure on durables. All these sectors are major users of steel products most notably strip and sheets. The bulk of the fall in EC demand in 1990 is expected to be felt in the FDR and in those economies such as Holland, Luxemburg and Denmark which have developed strong links with their German neighbour. Production in France and the UK is projected to fall by a more modest 2.5% across 1990.

The outlook for the former Soviet Bloc is particularly weak in the short term. In the first 7 months of 1990, East German steel output declined by 31.0% compared with the same period in 1989. In Poland, steel output declined on this comparison by 11.6% to 8.1 million tonnes whilst Hungarian and Czech production decreased by 13.7% and 1.7% respectively. Taken together, steel output declined in these four East European economies by an average of 8.5% in the first 7 months of 1990 compared with the same period in 1989. These economies face a double energy shock. First, in terms of energy intensity, Eastern European economies range from 1.5 to 2.7 times the OECD average. Second, the domestic rise in oil prices will be considerably sharper owing to the requirement to pay for USSR oil imports on the market prices. This implies a four-fold increase in oil prices in the former Soviet Bloc. The steel industry in Eastern Europe is obsolete and energy inefficient and requires significant capital investment to compete in world markets. Recent assessments by MEPS and Beddows indicate that there will be considerable opportunities to supply both capital equipment and steel products to Eastern Europe. The effects of the double oil shock will be to stall such developments.

Recent forecasts of world steel output published by the Economists Intelligence Unit (EIU) confirm the grim short-term outlook for world and European markets. The EIU estimate that steel output in the 33 largest producing economies will decline by 4.5% in 1990, by 1.1% in 1991 before rising by 4.2% to stand at 473 million tonnes in 1992. EC production is expected to fall by 5.5% in 1990 and by 1.5% in 1991 with the bulk of decline being felt in the FDR. Production cuts in North America and Japan in 1990 and 1991 are likewise estimated to be sharper than the average for the 33 major steel producing economies. The EIU projects that newly industrialised counties such as Brazil, South Korea, Taiwan and Mexico will fare better than the OECD steel producers in the first part of the 1990s. The EIU estimate that the share of output accounted for by such producers will rise steadily across the early 1990s due to slower output growth in the developed world. The issue for producers in industrialising countries is the extent to which they will be allowed to market their output in the major EC and North American markets. Both of these trading blocs have erected tariff barriers to keep out low cost imports. A recent assessment by Beddows and Co. indicates that, on the basis of cost competitiveness, the EC steel industry possesses an over-capacity of 50 million tonnes of annual capacity. At present, EC producers are assisted in local and export markets by trade restrictions and EC steel policy clearly serves to impoverish poorer economies.

Against this general poor outlook, BS reported a widely expected weaker performance for the first half of the 1990/91 financial year. Pre-tax profits totalled £307 million which constitutes a decrease of 27% over the first half of 1989/90 on the basis of a marginally lower turnover. Profits for steel trading declined by 37.3% and out-turned at £243 million. Thus pre-tax profits have been bolstered by greater investment income and lower exceptional charges than occurred in the comparable period in 1989/90. This offsets a marked decline in the operating environment where BS calculate that average margins have eroded by one third over the previous period. BS have responded to weakening prices by foregoing part of their high UK share in their product range. Thus, deliveries to the UK market in BS's product range declined by 8% but BS's deliveries to these sectors declined by 14%. In consequence, BS's UK market share fell from 62.0% in the first half of 1989/90 to 58.5% in the first half of 1990/91. However, despite this 14% fall in deliveries to the UK market, turnover fell by 5% to £1.5 billion. This reflects the BS pricing policy set out in the March and June Commentaries. BS intend to maximise profits rather than market share or output and have been increasing product prices since December 1989.

Whilst this approach may satisfy BS shareholders, it does little to advance the resolution of the UK's overall trade gap. The proportion of imports in UK steel consumption has increased from 25% in 1979 to 42% in 1989. At present the UK retains a favourable balance in international trade in steel based on ongoing penetration of EC markets. However, UK steel continues to show an adverse balance of trade with the EC although the deficit has been substantially reduced compared with the 1970s and early 1980s.

In previous Commentaries we have traced BS's attempts to increase European market share through attempts to purchase production and distribution facilities. In the September 1990 Commentary we argued that the overseas acquisition programme had proved disappointing. The attempts to purchase German production and distribution capacity have been frustrated by a relatively closed market for corporate control and pressure from German steel-making interests. Ultimately, BS were successful in securing the Manstaedt Special Sections division from Klochner. However, these assets are employed in the particularly competitive construction markets and face 15 direct EC competitors. Attempts to purchase share of the producer dominated distribution network within the FDR have met with more resistance. A major barrier to further expansion in Europe is the fact that, in all major European economies, the distribution network is all but owned by producers. Having failed to advance in this respect, BS consolidated their domestic position by purchasing Walkers, the largest independent UK steel stockist. Whilst it is possible to welcome this defensive measure, we view it as indicative of the state of EC competition where policy promotes and protects large integrated steel producers. The Walker purchase signals BS's response.

In the September Commentary, we noted that BS had purchased 40% of Aristrain, the Spanish long products supplier. This company specialises in structural steels and has distribution outlets in France, Germany and the US. The deal involved a joint venture with a Spanish bank with both partners securing 80% of the outstanding equity. This arrangement was rejected by the owning family who were under strong pressure from the Spanish government and steel interests. The deal failed because of reductions in the asset base of the Bank's industrial holdings caused by the oil price shock. This forced BS to go it alone and, in early October, BS secured agreement to purchase 45% of Aristrain for an estimated £114 million. Again, the Spanish government and state-owned steelmaker Ensidisa, remain hostile to these proposals although the former would be unable to block the deal under EC law. If this arrangement is finally concluded, it would eventually result in increased exports of finished and semi-finished products to the Spanish market and improve market access in countries where Aristrain owns service centres.

This Commentary has consistently supported BS's "Euro" strategy and welcomes BS's recent successes. Our rationale for this is straightforward. Certain Scottish interests have criticised BS for investing in overseas plants rather than in expanding domestic capacity. However, the highly cartelised nature of EC steel product markets makes it difficult to increase market share through exports. The purchase of steel plants with settled customer profiles and associated stockholding networks affords the potential for BS to improve market share more rapidly. BS remains one of the most efficient steel producers in the world on the basis of its 5 integrated oxygen plants. In the medium term, we view that overseas finishing capacity will be most efficiently fed from BS's low cost UK steel furnaces. A successful expansion in Europe and for the UK is one factor which can extend the lifespan of Scottish steel making after the mid 1990s when Ravenscraig's present internal markets for steel disappear.

It is evident that Sir Robert Scholey has become increasingly frustrated by the inability of BS to capitalise upon its hard won cost effectiveness in EC markets. At the time of privatisation BS was, on the basis of World Steel Dynamics estimates, the most efficient steel producer in the world. At that time, the FAI and other commentators were sanguine about the ability of BS to increase penetration of EC markets substantially by using its low cost production base to force more inefficient Community producers to exit from steel market segments. In the previous period, the Davignon measures had fossilised EC producers market share through the quota system and it was widely expected that BS would thrive in a more liberalised environment. However, as the foregoing discussion indicates, the producer domination of distribution networks and the imperfect market for corporate control have proved substantial barriers to BS expansion plans.

It is for such reasons that British Steel is the sole major integrated producer to support the EC Competition Directorate proposals to abandon the special status and measures for the steel industry set down in the Treaty of Paris. The argument set out by EC Commissioner, Sir Leon Britton is that the Davignon measures adopted following the declaration of "a state of manifest crisis" both delayed and distorted the required capacity adjustments in Community markets. Then, as now, the intent of EC steel policy serves to protect the position of the Community's large integrated producers by affording protection from both external and internal competition. In particular, the ability of national interests to frustrate BS's policy of expansion through acquisition is a wholly unsatisfactory state of affairs. Thus, we support BS in their call for greater liberalisation of EC steel product markets and the development of supra-national arrangements for policing steel mergers and acquisitions.

On 4 November 1990, BS announced their intention to close the steel making, casting and rolling capacity at their Clydesdale Works in Bellshill.

In the September Commentary, we concluded that the position of Clydesdale seemed "hopeless". The weak link in the Clydesdale capacity arises downstream in the production process. The Bellshill plant possesses modern electric and steelmaking furnaces and a recent vintage seamless tube continuous caster. However, the plant's two rolling mills present a formidable penalty in terms of cost and quality. The 2 pilger mills were established in the late 1940s and early 1950s although both have been modernised to a degree in the intervening period. Although recent throughput at Clydesdale falls well short of the rated capacity of 180,000 tonnes pa, BS executives have stressed that, given present weak prices, CLydesdale could not operate profitably even if fully loaded.

In recent years, World and European seamless tube producers have been operating recently at circa 45-65% capacity utilisation. The main market for seamless tubes is the Oil Country Tubular Goods (OCTG) sector. In the 1970s and 1980s demand for these products has varied markedly owing to the effect of volatile oil prices of production, exploration and development plans. A recent study conducted for Motherwell District Council by Steel Research International (SRI) indicates that demand for seamless tubes fluctuated between 17 million and 27 million tonnes pa during the 1975-87 period with consequent variation in prices and profitability. The second OPEC shock in 1980, promoted a glut of investment in seamless tube capacity in Japan, Europe and Latin America. In the early 1980s, BS appeared intent on the modernisation of Clydesdale and commissioned a state of the art tube caster in 1982. However, in the subsequent period, the local North Sea market faltered and decisions to upgrade or replace the obsolete rolling mills were not taken. This has provoked ongoing concern over the quality aspects of Clydesdale output.

The net result of this failure to invest has been that, in the last 18 months, BS has been engaged in discussion with European and, latterly, Japanese tube producers. Given that all the possible partners have an excess capacity in more modern rolling mills, we took the view that most conceivable joint venture would involve the supply of rolled tubes to the heat treatment facilities at Clydesdale and the threading and finishing plant at the Imperial Works in Airdrie. Thus, any likely joint venture seemed to foreshadow the closure of the rolling mill capacity and down-stream steel-making and casting. Prompted by declining overall profitability and ongoing losses in tubes, BS decided to axe their seamless tubemaking without resort to any formal tie-up with another producer. In the short run, BS will be able to take advantage of low cost - high quality tubes available on world markets. However, if others respond to weak prices by closing plant, demand and supply in tubes will move into line with consequent higher prices. Thus, the immediate effect of the Clydesdale closure will be to ensure that BS retains its customer base for finished output by using better quality - lower cost inputs. Over a longer period as the tube market adjusts, BS may well be forced into a closer relationship with a supplier or may chose to exist this market segment. However, over the next 5-10 years, North Sea demand for OCTG seems set to remain at high levels suggesting that any product deletion decision would be several years away. With great regret, we view that there is no future for Clydesdale in the tubes sector. A solution may involve diversification into other products and their scenarios should be fully evaluated.

BS has made great play concerning the financial imperative of closing Clydesdale. The net effect will be to export jobs and value added to supplying companies in overseas economies. In previous Commentaries we have made reference to BS's capacity overhang and the potential to effect reductions in the cost base through rationalisation. As indicated, BS management have used the existence of this to signal to financial markets and shareholders the ability to protect earnings from disturbances in steel markets. It is our view that, the guarantees given at the time of flotation were designed to clarify the feasible time scale of rationalisation to potential investors and, in the final analysis, provided little protection for the Lanarkshire workforce. Thus before the publication of their accounts for 1989/90 and in anticipation of weaker short term markets, BS were signalling the availability of significant savings through closure and demanning without loss of market share.

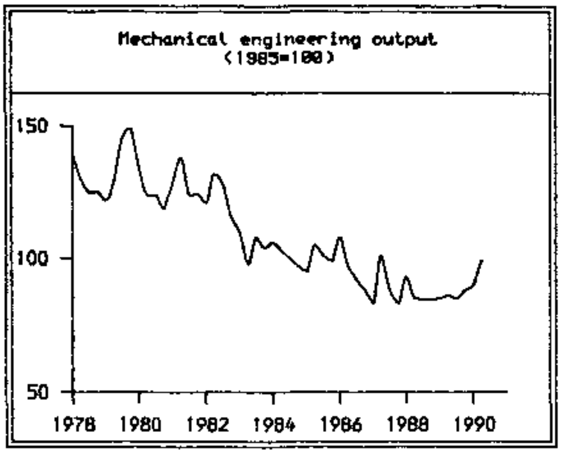
The Clydesdale decision is clearly of this genre. Indeed, the announcement of the closure one week before the publication of a less than favourable set of half year results is designed to insulate the share price from adverse market reaction to BS's reduced profitability. This appears to have worked because there was no immediate downward revision in the BS equity price following the disclosure of the first half trading performance. In addition, this approach has impressed City commentators who have been anxious to stress the effectiveness of Sir Robert Scholey's stewardship of BS.

In previous Commentaries we have discussed the current BS investigations into the so-called single plate mill strategy. The purpose of this enquiry is to consider whether investment in a single platemill should be undertaken to replace the facilities at Dalzell and Scunthorpe. Although BS have yet to pronounce on this matter, it is currently believed that the poor short term markets and consequent weakness in prices has forestalled any clear resolution of this situation. The single platemill strategy has always been implied by BS to be a marginal project. The uncertain and poor short-term outlook for plates may have undermined the financial attractiveness of platemill investment. It is quite frankly premature to suggest that this constitutes either good or bad news for the Dalzell workforce. However, as the Shop Stewards have recently argued, a re-appraisal of the position of Dalzell requires to be commenced. The starting point for this should be to press BS to make a full statement on the current thinking on plates and their future production and investment intentions. It may well be the case that both the Core Group of the Standing Commission for the Defence of the Scottish Steel Industry and the Scottish office, both of whom have advanced strong and soundly based proposals for investment at Dalzell, require to reconsider their tactics.

MECHANICAL ENGINEERING

Recent data from Scotland's mechanical engineering indicate that the recent past has seen growth in output and employment, although prospects for the future are considerably less bright.

The index of production for the second quarter of 1990 shows output a full 10% above the previous quarter and 15% higher than the corresponding quarter a year earlier. The more reliable figures for the latest four quarters on the previous year shows growth standing at 7%. These very rapid growth figures need to be taken with some caution: the latest index of production statistics are often subject to downward revision, as noted in previous Commentaries. The latest quarter could also be influenced by deliveries on large projects. Nevertheless, this growth, which is considerably better than the figures for the UK as a whole, indicates that the Scottish industry is entering the recession in a good state of health.



The positive picture is supported by a growth in 2.4% in employment in engineering, metal goods and vehicles in the year to June 1990. Over the same period, there was nil employment growth in this sector in the UK as a whole.

One likely major force behind the improvement was the pickup in North Sea activity, which preceded the Gulf Crisis. The beginnings of the general economic downturn also started before the crisis and are likely to ensure that the recent growth will not continue. This viewpoint is supported by the findings of the Scottish Chambers Business Survey. The Survey has recently been expanded, both in the range of questions asked and in coverage, so these findings are not directly comparable with those in previous reports.

The Survey's main findings on recent new orders are for a positive balance of responses concerning Scottish orders, a negative balance for the rest of the UK and a positive balance for export orders. This is clearly consistent with the output and employment data. The outlook for the next three months is similar but slightly less optimistic. The picture is very similar with regard to total sales. Lack of orders or sales was, as usual, cited most often as the main constraint on output.

Capacity utilisation is given as 83%, with the balance of responses indicating an increase over the past year. Stocks of both finished goods and raw materials have fallen over the last three months and are expected to continue to do so. However, while work in progress was, on balance, expected to fall over the coming quarter.

Investment in plant and equipment is stable in terms of balance of responses. However, there is a slightly negative balance in respect of investment in land and buildings. There is no overriding single reason for investment, though replacement and the need to increase efficiency were the most frequently cited reasons.

Total employment has increased over the last three months, according to the balance of responses. This confirms the rather aggregate data from the Department of Employment. Employment was also expected, on balance, to increase over the next three months. However, the second most common constraint on output was given as the lack of skilled labour. These employment problems are reflected in difficulties in recruiting skilled manual, technical and professional/managerial labour. The tightness of parts of the labour market is reflected in increased training and in an industry average pay settlement of 14%.

This lack of skills appears to be an important constraint on the industry. However, it will take some time to have an effect. As noted below, a number of companies are now releasing labour as a result of the Gulf crisis, the contraction of the coal and coalfired power stations industries and the general recession. It is difficult to tell how far these redundancies and those that will follow steel plant closures will match skills shortages within the mechanical engineering industry. Assuming that there is some overlap, so that skills shortages do not become apparent during the recession, the training problem is likely to resurface as soon as growth resumes. In conclusion, it appears that the recent good performance of the industry has equipped it well to survive the downturn. However, the lack of a pool of skills could well put a lid on subsequent growth.

The company news largely confirms what the government figures and industrial surveys say. The Weir Group in their annual report have increased profits 16.9% to £11m before tax and after extraordinary items. This was on turnover 25% higher at £131m. Orders are said to be 26% higher. The highlighted activities were the firm's oil industry involvement and improvements in the Hopkinson's valve-making subsidiary. The programme of new acquisitions continues. The company saw as the main threat to its business the high level of sterling.

Much of the other firm-level news is less good. The Gulf crisis and trade embargo on Iraq has led Howden to stop work on its power station contract for that country. As a result of this, the lack of new coal power station orders and the general recession, 500 redundancies have been announced at the Renfrew manufacturing facility. While 200 jobs are to remain in the tunnel boring and heater exchange division there, work will also be pulled back from subcontractors. Howden is also being sued by its joint venture partner, Decon, concerning work done on the £1.8m Channel Tunnel boring machine contract.

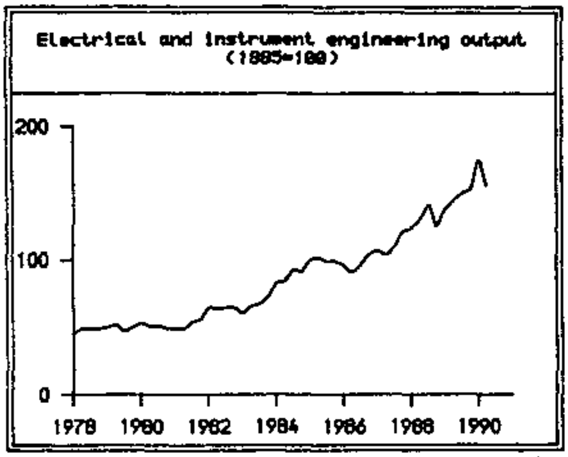
The decline of the coal industry continues to cause redundancies. The Anderson Longwall plant at Motherwell is to lose 95 jobs, including 45 voluntary redundancies, leaving 900 employed at the plant. J. H. Fenner, producers of coal industry conveyer belts, are to close two plants in Cumnock, with the loss of 170 jobs.

The National Engineering Laboratory in East Kilbride, which has already seen its workforce fall from 650 to 400, is now expected to see further departures. This is as a result of the new business plan, considered to be a step toward the revival of privatisation plans.

The 'Financial Times' review of the UK machine tool industry found the worst buying climate for purchasing equipment since the early 1980s. Sales might have fallen by as much as 60% since the beginning of 1990 as a result of investment being deferred. The late 1980s investment boom is not seen as having closed the UK's technology gap, as most competing countries were also heavily investing at that time. In particular, UK firms are considered resistant to financing linked or multi-function machines. Instead, a low-cost strategy has led to high penetration of Taiwanese machine tools. Part of the reason for this lower-technology route has been the lower wages obtaining in the UK, despite the much higher productivity of recent machines.

ELECTRONICS

The latest Scottish Chambers' Business Survey predicts little change in output over the next three months - 52% of respondents expect no change in Scottish orders and 60% expect the same for UK orders. There is marginally more optimism regarding overseas sales, however, with 33% of respondents expecting these to increase.



One piece of welcome news in the company sector is the management buy-out (MBO) of the Livingston-based Industrial Control division of the US corporation Burr-Brown, the new company to be called Pentland Systems. If we accept that any event which increases local control of industry is to be welcomed (and, on balance, we believe this to be correct) the MBO is clearly a potentially very useful instrument to this end and there are obvious advantages in terms of company stability and growth prospects where an established operation is purchased by its current management team.

Indeed, looking across all industry, MBOs have grown substantially in the UK in the 1980s, as research undertaken by the centre for management buy-out research (CMBOR) at Nottingham University clearly indicates.[1] The CMBOR figures show that MBOs in the UK grew from 18 in 1979 to 357 a decade later (although this is expected to slow in the next few years, for example because of fewer opportunities arising out of the government's privatisation programme). During the same period, the total financial value of MBOs increased from £14 million to £3918 million. Furthermore, the UK is the European leader in this area, with 68.5% of all major European MBOs taking place here between 1980-89.

One interesting finding which also emerged is that while the majority of MBOs arose out of divestment of subsidiaries by UK parents (69% in the first half of 1989) a substantial proportion were due to foreign divestments (10%). The CMBOR study found that the two major motives for MBOs have been attempts by local management to prevent closures during recession (a particularly prevalent motive during the early eighties) and the widespread voluntary divestment of subsidiaries as parents have retreated to "core" business. Seventeen per cent of all MBOs in 1989 were in electronics sectors.

Turning directly to the electronics industry in Scotland, however, the actual record of MBOs in this sector is disappointing, with only two of any note in the last couple of years, the purchase of Memex at East Kilbride and that of Iteq out of Indy Electronics at Irvine. This latter, which as by far the largest, was subsequently sold to the Korean company Ankor Anam earlier this year.

The position in Scotland also appears to contrast sharply with that in Wales where, according to its Cardiff director, 3i has been involved in arranging more MBOs than in any other region of the UK.[2] Significantly, the branch plant nature of the Welsh economy appears to be a significant determinant of the high incidence of MBOs in Wales.

It is interesting to speculate as to why we have not seen more MBOs in the electronics sector in Scotland. On the face of it, certain of the necessary conditions are present here, particularly the high incidence of branch plants in the sector (see below). In addition, three of the largest operators (Murray Johnston, Bank of Scotland and Charterhouse Development Capital) are located in Scotland.

Clearly, a host of other factors must be correctly configurated before an MBO can occur, not least that the parent must agree to sell and it is possible that the very success of foreign subsidiaries in Scotland has limited the potential for MBOs. However, we suggest that one additional reason which is very likely to be of importance here is the nature of subsidiary operations in electronics. Research undertaken in 1986[3] which focused on the functional characteristics of foreign subsidiaries located in Scotland found, for example, that electronics subsidiaries were less likely to undertake higher level research as were more likely to be allocated "rationalised manufactured" status, essentially, acting as production-only operations for part of the parent's product range. The implication is that the restricted range of function makes it less likely that such subsidiaries are in a position to seize opportunities to create new companies where these arise because of the lack of, for example, marketing functions. Concurrently, the fact that rationalised manufacturers are an integral part of the parent's overseas production capabilities clearly makes it less likely that the parent will be less willing to divest. In essence, therefore, it is likely to be the case as far as the prospects for MBOs are concerned, that the form of subsidiary which prevails, and indeed is attracted by policy, entails a trade-off between company stability and the prospects for local autonomy.

Another development in the company sector is the announcement by the Taiwanese company Delta Electronics that it is to set up a factory at Inchinnan to produce switch mode power supplies (SMPS), the devices which control the power input to personal computers. This is welcome news given that the company expects to create up to 500 jobs and that the development will contain a product design facility. This appears to be further evidence that fears over "Fortress Europe" is having the effect of displacing imports from the Far East by foreign direct investment, an impact which has been noted several times in recent issues of this Commentary. Clearly, Delta will aim to serve the two major PC manufacturers who are located in West Renfrewshire, IBM and Compaq (the Delta announcement has, however, something of a bittersweet taste, since SMPSs are the product manufactured by the SDA-sponsored company Domain Power, which was recently saved from liquidation by an American takeover).

Delta is the first Taiwanese company to manufacture in Scotland and only the second in the UK. Given that the Ankor Anam takeover of Iteq mentioned above was the first Korean involvement in Scotland (and the number of Japanese companies now present in Scotland) we may now be seeing some success from the SDA's policy of increasingly targeting the Far East as a source of inward investment. Delta may be doubly important to the extent that it has any demonstrations effect on other Taiwanese electronics companies, since Taiwan is becoming an increasingly important producer of electronic products. For example, the Far East in total (mainly Japan, Korea and Taiwan) produced 5 million PC units in 1988, approximately 25% of the world total, 2 million of which were produced in Taiwan.[4]

Finally, the Swiss company Schindler Lifts is to set up a design centre in Livingston which will research into computer software and artificial intelligence. This is the company's first such venture outside Switzerland, and a major attraction is reported to have been the supply of graduates available in Scotland.

FOOTNOTES

1. See National Westminster Bank Review, August 1990, pp40-53.

2. Financial Times, 13 October 1989.

3. S Young "Foreign Multinationals: Subsidiary Roles and Technology". Paper presented to a conference on Scotland and the Multinationals, Strathclyde International Business Unit, University of Strathclyde, Glasgow, 1986.

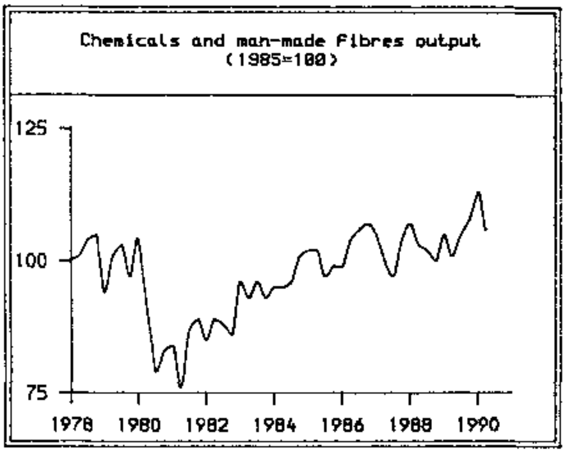
4. Far East Economic Review, 31 August 1989.

CHEMICALS AND MAN-MADE FIBRES

The latest Scottish index of production figures for the chemicals and man-made fibres sector show that output stood at 106 in the second quarter of 1990, down 6% from the previous quarter. UK output, was also down by 1% to 120. UK output is up 2% on the year whilst Scottish output was up 6% on the year. Increasingly competitive conditions in the British chemical sector are given foreign competitors an uphill battle to keep their sales at a satisfactory level, especially for intermediate products.

The new Scottish Chambers' Business Survey (SCBS) reports that a balance of 25% of respondents were less optimistic about the general business situation in the chemicals sector, than they were three months prior to the SCBS.

Britain's chemical trade balance has improved in the first half of 1990 with exports exceeding imports by nearly £1,200 million compared with around £830 million in the same period last year. Overall exports amounted to £6,80 million, compared with £6,100 million in the first 6 months of 1989. In Western Europe, UK sales reached £4,300 million, up nearly 15%. The upward trend in sales to *Eastern European countries was* sustained. In North America, UK exports showed a gain of 4%. The falling dollar made exporting to the US more difficult in this period. This is reflected in the latest SCBS, whilst the trend in actual new orders from Scotland and the rest of the UK was down for a balance of 4% and 31% respectively in the three months prior to the SCBS, export orders were up for a balance of 27% of reporting firms. The expected trend for new orders in the 3 months after the SCBS, from Scotland, the rest of the UK, and export orders is up for balances of 12%, 7% and 27% of respondents respectively.



Actual sales to Scotland, the rest of the UK and export sales showed balance figures of +4%, -15% and +37% respectively, whilst expected sales showed positive balances of 16%, 8% and 33% respectively.

The strong pound will make exporting more difficult and some firms will have to fight hard to maintain their sales at a reasonable level in the current economic climate. Moreover the price of British chemicals is expected to rise markedly, partly as a result of increases in the cost of oil feedstocks. This will lead to a loss of competitiveness especially in the North American markets, not to mention any escalation of hostilities in the Gulf.

The SCBS reports that current capacity utilisation is 79%. The expected trend in investment in plant and equipment and land and buildings is down for balances of 17% and 7% of respondents respectively, however 83% and 81% report no change in their investment intentions. The most limiting factor for output in the 3 months after the SCBS is orders or sales, for 40% of respondents. The expected trend in employment for the next 3 months is positive with a balance of 17% of firms reporting an upward trend. Around a third of respondent firms experienced difficulties recruiting technical and professional and managerial positions. Overall, almost three quarters of respondents stated that they were not experiencing problems recruiting suitable employees in particular occupations.

ICI's explosives section is reported to be losing £1 *million per month*. The Nobel's Explosives factory at Ardeer is hoping to avoid redundancies but will need to cut its costs. It is hoped that retraining and early retirement will go some way towards alleviating the problem. The situation is further exacerbated by ICI's poor third quarter's figures, which make it harder for them to carry a loss making operation.

ICI has sold its 24.9% stake in Enterprise Oil to institutional investors for £679.6 million. This was seen as a result of Enterprise Oil's pressure on ICI not to sell to an unfriendly party. Enterprise Oil is under takeover threat from the *French* state *controlled* oil *major* Elf-Aquistine who acquired Lasmo's 25% holding in 1989. Recent speculation has added US oil giant Atlantic Richfield to the list of possible bidders.

A management buyout at Macfarlan-Smith has recreated this company's independence in a £17 million buy out from pharmaceutical giant Glaxo. Macfarlan-Smith which employs 170 people at its Murrayfield plant is perhaps best know, nowadays, for its foul tasting chemical Bitrex which is added to household chemicals to discourage children from ingesting them. It is the world leader in opiate based pharmaceuticals exporting half its output to 70 countries. The buy out was completed wholly within Scotland, arranged by the Bank of Scotland, with support from the venture capital group 3i, with County Natwest Venture and Noble Grossart.

The European chemical industry faces extra costs of about $5 billion (£2.66 billion) a year as a result of the rise in naphtha prices since the start of the Gulf Crisis, which can only get worse if hostilities escalate. In September alone

European chemical companies are estimated to have paid $400-$500 million extra for their naphtha supplies, the basic building block for petro-chemicals and plastics, which is refined from crude oil. As a large number of contracts were negotiated prior to the Gulf crisis the additional cost may have to be borne by reduced margins at least in the short term. ICI are expected to be hit badly by this as will a number of other plants in Scotland.

TEXTILES, LEATHER, CLOTHING AND FOOTWEAR

Scottish output in this sector, for the second quarter of 1990 has fallen by 6% to an index of 96, its lowest point since 1987 according to the latest index of production figures for Scotland. The year on year comparison shows a decline of 2%.

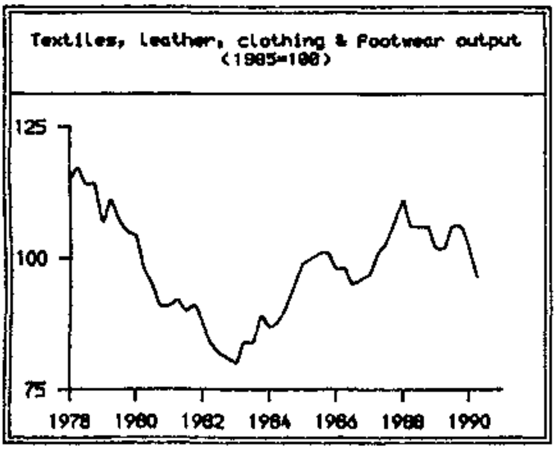
The second quarter of 1990 is the first quarter for three years when Scotland did not out-perform the UK. The UK figure is 98 which is down 2% on the quarter and down 3% on the year.

A balance of 23% of respondents to the latest SCBS are less optimistic about the general business system than they were three months ago. The balance changes to 35% when comparing with one year ago.

The trend in new orders is not healthy, during the three months prior to the survey they were all negative, with orders to Scotland, the rest of the UK and export orders all having negative balances of 5%, 30% and 9% respectively. The expected trend for the three months after the survey is worse than that overall, with corresponding negative balances of 14%, 29% and 22% respectively.

The trend in the total volume of sales is equally disappointing, with negative balances across the board. Scottish, rest of UK and export sales for the three month period prior to the survey showed negative balances of 5%, 30% and 5% respectively. The expected trend in sales for the three months after the survey is also not good with balances of 20%, 28% and 10% of firms expecting sales volumes to fall for Scottish, rest of UK and export sales respectively.

With orders and sales declining one would only need stocks of finished goods to be increasing and stocks of raw materials to be declining in order to complete the picture of a sector in the doldrums. However, between a third and a half of respondent firms are showing a level trend in new orders, sales and stocks, but stocks of finished goods are up for a balance of 13% of respondents and a further balance of 5% expect them to continue to increase in the next three months. Stocks of raw materials are being run down for a balance of 10% of respondents and a balance of 23% expect this to be the trend for the three months after the survey. Work in progress, although up for a balance of 6% of firms in the three months prior to the survey is expected to reduce for a balance of 8% of respondents in the next three months.



Respondent firms state that they are using 80% of their present capacity. Investment intentions have been revised downwards for a balance of 5% and 18% of firms for plant and equipment and 15% and 4% for land and buildings for the three month period before and after the survey respectively. However the majority of respondents were not planning any revisions to their investment intentions.

Although a half to three quarters of respondent firms are experiencing a level trend in employment, the balance figures are all negative ie the trends in employment are down and are expected to be down in the next three months. Total employment is down for a balance of 6% of respondent firms both for the three month period before and after the SCBS. Male employment is also down for a balance of 12% for both time periods. Female employment is down for a balance of 10% of respondents in the 3 months prior to the SCBS, but is expected to be down for a balance of

2% in the next 3 months. The trend for temporary work was down for a balance of 20% of respondents and is expected to be down for a balance of 32% of respondents in the 3 months after the SCBS.

There was an increase in sub-contracting employment for a balance of 16% of firms in the 3 months prior to the SCBS but the next 3 months are expected to show a reduction for a balance of 12% of respondents. Nearly half of all respondents experienced a level trend in overtime working which they expect to continue for the 3 months after the SCBS. For the remainder the trend was for a reduction in overtime working with negative balance figures of 4% and 10% for the two time periods respectively.

Forty per cent of respondent firms have increased wages/salaries in the 3 months prior to the SCBS and 52% have attempted to recruit staff. The main skills shortages experienced are in skilled manual, technical and the recruitment of young people in the 16-24 year old age group, 65%, 46% and 46% of all firms respectively say that they experienced difficulties in recruiting these categories. Fifty three per cent of respondents report that they are experiencing problems recruiting for particular occupations.

A group of EC importers are complaining to the Commission that duties should be lifted on imports of polyester fibre from the US, Mexico, Romania, Turkey, Taiwan and Yugoslavia as they have increased their prices and are no longer dumping. They complain that the continued existence of duties has led to a reduction in imports and an increase in EC prices for polyester fibre, leading to increased costs for users of the fibre. Other textile imports which compete with products made by Community polyester yarn users have not been subjected to any duty and have therefore become more competitive. This has increased the losses of EC users of polyester fibre.

Mr Allan Nightingale, chairman of the Apparel, Knitting and Textiles Alliance (AKT) has warned that the industry may be trapped between increasing imports and falling exports at a time of static domestic demand. The textile industry is already struggling on a intensely competitive trading climate. It tends to reflect changes in economic conditions earlier than other industries. It was one of the first sectors to suffer in the present downturn. The strong pound and weak US dollar is bound to increase pressure on the industry.

Wool textile exports are sharply down. The latest figures from the National Wool Textile Export Corporation in Bradford show that at £462 million the value of exports in the first 9 months of this year was 10% lower than the corresponding period last year. Again the strong pound has made it increasingly difficult to compete overseas. The export market which was relatively buoyant at the beginning of the year has deteriorated steadily since then. The value of wool textile exports fell 33% in September (latest figures) alone, down nearly £20 million to £39.5 million according to the corporation.

President Bush appears to be taking a stronger line in the Uruguay round of trade talks and the US have tabled an offer to cut tariffs by 43%. Protectionist forces failed to overturn the president's veto on the textile and apparel quota bill. The weakening US economy has led to increased opposition to trade liberalisation. Had this bill not been vetoed it would have violated 38 bilateral pacts and two multilateral agreements as well as undermining the US position in the round.

In the UK the AKT are demanding urgent action to strengthen rules against trading abuses in the international textile industry. They highlight 5 areas where the rules are inadequate:

- the "profoundly disappointing" progress in reducing excessive tariff and non-tariff barriers;
- the "inadequate" proposals to strengthen the rules against dumping; the investigation process should be accelerated;
- the lack of measures to prevent subsidies for exports or investment;
- the absence of an efficient means of preventing theft of designs and brand names;
- the "inadequate" provisions for taking safeguard measures against "damaging import surges".

The AKT urge the gradual and progressive phasing out of the MFA over a number of years in conjunction with a strengthening of the GATT rules.

Hogg of Hawick is to close down for the second time in less than four years as a result of the continuing recession in the Borders clothing industry. The announcement dashed hopes that there would be expansion and new jobs created after the Millbank works were purchased by Luciano Benetton of Venice. The company with a workforce of 76 blamed "substantial increases in the price of cashmere" for a substantial reduction in demand for the type of knitwear that they produce. The firm would need substantial investment in new technology and machinery. The Benetton group did not deem investment on this scale, for such a small part of their operation, worthwhile.

Borders Region Action for Textiles (a group was set up to campaign against cheap imports under the MFA) state that 740 jobs have gone in the region in two years compared to 420 in the six years to 1987.

Dundee Textiles, Europe's most advanced fabric finishing plant is now officially opened. It is a £16 million joint venture with Tootal and two Japanese partners (Kuratso Industries and Tomen Corporation). The plant will give a valuable jobs boost to the area.

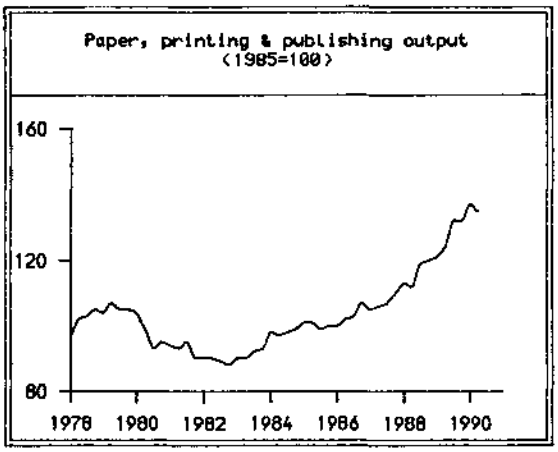
PAPER, PRINTING AND PUBLISHING

The index of production and construction for paper, printing and publishing fell by 1% in Scotland and rose by 1% in the UK as a whole. However, over the past year, Scottish paper, printing and publishing output rose by 11%, whereas UK production rose by 3%.

The October Scottish Chambers' Business Survey (SCBS) revealed a balance of optimism figure of -32% (ie 32% more of respondents were pessimistic than were optimistic); this compares to a balance of -44% in the same period one year ago. Orders and sales from all areas, were depressed for a balance of firms.

A balance of -3% of SCBS respondents experienced a decline in total employment and a net of -21% of respondents expect total employment to decline during the current quarter.

In October, GP-Inveresk, a maker of fine paper based in Scotland was acquired by management from its US parent, the paper group Georgia-Pacific, for £31m. The company will now be known as Inveresk and will continue to make products for specialised markets. It exports about 30% of its output and has sales of around £100m a year. The company is based at Inverkeithing in Fife and employs 930 people.



Wiggins Teape Appleton, the UK paper company confirmed a merger with Arjomari-Prioux, the French specialist papers business. The merger will create Europe's largest paper merchanting and distribution business.

Britain's largest independent papermaker, Tullis Russell, is to lose almost 100 jobs at its Fife mill, following a large drop in the company's profits in the last financial year. The firm expects the job losses to be achieved through voluntary redundancies or early retirement, although some compulsory redundancies may be necessary.

Services

FINANCIAL SECTOR

The debate on short termism rumbles on inconclusively. Definitive evidence to show that the City and financial institutions are short term in their decision making is hard to acquire and although many commentators would convict most investment fund managers of short termism without further ado, (can one really argue that the high rates of turnover prevalent in many managed investment portfolios are necessary or even beneficial?) it is not clear that the majority of financial institutions, particularly in Scotland, are short term in their strategies. Indeed, quite the reverse; many commentators praise or damn, depending on their perspective, the Scottish institutions for their conservatism and slow response to change. The matter is important since in this period of economic recession it is necessary to weigh the activities of the institutions carefully and assess whether they are currently laying the foundations for their future prosperity and growth or whether they are essentially opportunistic, simply responding to changes as they occur with no clear vision of where their future growth and prospects lie. The current debate on Europe heightens these concerns.

Significant changes in product orientation and marketing strategy by companies are difficult to observe and assess, intermingled as they are with the inevitable razzmatazz accompanying any new product launch. They are for that reason unreliable guides to the future. More useful in understanding company policy is the acquisition strategy that a company is following, although even here it is generally difficult to assess the full implications of a company's activities. The acquisition of Connell, a London based estate agency chain, by Scottish Widows is a case in point. At a time when many financial institutions have been actively closing branches and rationalising their hastily acquired estate agency subsidiaries in response to falling sales and profits it is interesting to ask why Scottish Widows should be acquiring an estate agency at such a time. Certainly Connell appears to be profitable and well run but the experiences of other institutions in the estate agency business has not been good. Nor does the the acquisition appear cheap. Is this part of an up to date long term strategy or simply a belated attempt to match the activities of its competitors based on a misguided, out of date strategy?

A second example is provided by the activities of the Royal Bank in the past few months. Capital House, its investment subsidiary, has continued the expansion of its unit trust business with the acquisition of Scimitar's UK unit trusts at the very time when the unit trust market has been in decline. The acquisition is expected to boost funds by £17m but unless sales can be greatly increased or economies of scale reaped it is unlikely that the deal will improve the profits of Capital House, at least in the short run. The logic of the acquisition, albeit that it appears to have been cheap, is not immediately apparent. Is the acquisition based on a soundly based strategy that perceives the unit trust market as growing and Capital House to have long term competitive advantages, or is it simply misplaced opportunism?

Charterhouse Tilney, the stockbroking arm of the Royal Bank has also been in the market, buying Campbell Neill from the collapsed British and Commonwealth group, and greatly increasing its customer base in the Scottish private client market to about 20% of the total. The acquisition of market share is attractive but again is this a growth market given the low volumes of trading on the stock exchange and the long term decline of private sector investment? Much has been written about expanding share ownership but after removing the effects of the privatisation issues is there evidence to show that private sector investment in equities has grown? The decline of the private sector investor is a result of long run economic forces. It is tax efficient to invest through institutions, particularly pension funds. PEPs and TESSAs are an attempt to redress the balance but are politically uncertain and limited in scope. The private sector will continue to decline at least until fiscal privileges are equalised, and even then information and transaction costs may still persuade individuals to invest through institutions. Hopes for any resurgence in private client business must be long term. Increased leisure time and wealth and a more entrepreneurial culture, together with fiscal changes, might be a catalyst for change but the odds are not high. Of course, the deal may still make sense. If the cost base of Campbell Neill is low and the price of the acquisition cheap, profits can still be made but the question remains; is this a sound long term investment or short term opportunism?

The Royal Bank has also been active in the US market. At a time when the Japanese banks are under severe pressure and the American banking system is creaking at the seams, a result of Third World debts, falling property prices and non performing property loans, as well as federal regulators demanding tougher capital adequacy provisions, the Royal Bank has been investing in regional banks. Citizens Financial acquired in 1988 is being expanded by the purchase of the branch network of the Old Colony subsidiary of the Bank of New England, and by the possible acquisition of Bank Worcester. It is true that some of the regional banks have been largely immune from the severe problems of the major American banks; but should the bank be buying in a market that has not always been kind to British banks and when the chairman of the Bank of Ireland has had to resign largely as a result of losses resulting from a previously profitable American regional bank? Are we witnessing sound acquisitions that fit into a coherent long term strategy and plan, or are we witnessing optimism and opportunism, unsupported by anything but hope?

Unfortunately, it is impossible for the outside observer to answer such questions. In the absence of hindsight one can but hope that the current round of acquisitions is part of a long term strategy and that opportunities are being seized to acquire operations cheaply. However, one cannot help but have grave reservations since an economic upturn is not in sight and the recession is still deepening. The acquisitions are not in fast growing, expanding sectors of the market. They are aimed at increasing market share in established, mature markets and while they may be profitable they are unlikely to lay a foundation for prolonged, rapid expansion and growth.

We should not be too critical of the companies. Long term planning is difficult in an environment of rapid change. One estimate has suggested a substantial growth of employment in the financial sector by 1995 with the City banks, for example, requiring 6000 more staff.[1] Such claims are bold in a climate in which the Royal Bank along with the other clearing banks is aiming to reduce its staff and control its costs. It is difficult at the moment to see any renewed rapid expansion of the financial sector. Slower growth in the economy and over-capacity in many areas does not suggest rapid expansion. Indeed, a number of factors suggest that the possibilities for further growth may be limited since the financial sector is already a major source of economic activity and employment and cannot go on expanding indefinitely, whilst the efficiency gains achievable from the increased competition that resulted from the regulatory changes of the mid eighties, are well on the way to having been achieved. It is unlikely that scope exists for further major expansion from legislative changes. Of course, rapid expansion in Scotland could still continue even if growth slows dramatically in London and the South. Scottish financial institutions could attract an increased share of UK business perhaps because of the low cost base of Scottish operations, the move of the TSB's mortgage processing activities to Glasgow being a case in point. To secure continued rapid growth in Scotland the critical need is to identify the country's strengths and weaknesses in the financial services sector. Its strength lies in Scotland's ability to be a low cost provider of financial services, coupled with an already existing infrastructure of firms, activities and skills. Its weakness lies in its heavy representation in traditional activities and slow response to new markets, both geographical and product. James Provan of Scottish Financial Enterprise was recently quoted as saying that Scotland has a reputation for probity and honesty domestically but not internationally. Extension of this reputation to Europe must surely be the next target for the Scottish institutions. It is unlikely that dramatic gestures are required. A long term strategy of expanding European operations, probably by small acquisitions and sustained marketing is required of the Scottish companies. There are few financial centres in Europe where a similar combination of low costs and skilled personnel and expertise are to be found. Scotland must be able to profitably sell financial services. The dangers are that complacency, short term horizons and inadequate marketing and entrepreneurship will combine to stifle new ventures and innovation. It would be nice to report in the future that the Scottish companies were adapting their products, building brand loyalty and extending their distribution systems in European markets.

FOOTNOTE

1. Capital People: Skills Strategies for Survival in the Nineties, A Rajan, L Rajan and P van Eupen. Industrial Society, Birmingham

DISTRIBUTIVE TRADES

The Scottish Chambers' Business Survey (SCBS) has recently been extended to include a larger number of distributive firms, to cover additional geographical areas (now almost the whole of Scotland), and to seek information on a wider range of aspects of business activity. Thus, the revised SCBS should provide a more accurate and detailed picture of short-term performance trends in Scottish distributive trades.

As the new survey 'settles in', more information from it will be included in this section of the

Commentary, including disaggregate regional data. In the present issue, we concentrate on aggregate Scottish results.

Responses to the November SCBS for Scottish wholesaling, which covers the third quarter to end September, are shown in table 1. Broadly equivalent results from the (unrevised) August SCBS are included for comparative purposes.

On balance, wholesalers experienced both sales and employment growth during the third quarter; in fact, on these measures net performance was virtually identical to that in the second quarter, providing no evidence of a 'slow-down' in the Scottish economy. However, wholesalers were clearly becoming less optimistic about the general business environment and about their own future prospects, influenced in part, presumably, by the outbreak of the Gulf crisis in early August.

Two thirds of respondents had attempted to recruit staff during the third quarter, indicating fairly active wholesaler participation in the labour market. On balance, only a small number of wholesalers had recruitment problems, but, in fact, 55% did experience difficulties in finding staff for particular occupational posts, most notably professional, managerial and skilled manual positions.

Table 2 below gives the Scottish retail responses to the November SCBS, with August figures again included for comparison.

A healthy balance of 33% of retailers experienced third quarter sales growth, higher than had been predicted in the previous survey, if a little down on second quarter performance. On balance, retail employment was static, but this was actually an improvement on second quarter experience. Overall, these results provide little, if any, evidence of a slow-down in Scottish retail activity in the third quarter.

As with wholesalers, retailers were becoming more pessimistic about the general business environment though some further net short-term growth in sales and employment was predicted. However, this projection period includes the run-up to Christmas, typically the busiest time for the retail sector.

55% of retailers had attempted to hire staff during the three months to end September, with few overall difficulties being experienced. The only net problem area was in recruitment of skilled manual workers.

Table 1 Aggregate Scottish responses to November SCBS: wholesaling

	Percentage balance: November	August
Overall confidence	-12	+11
Actual sales	+36	+38
Expected sales	+10	+31
Actual employment	+ 9	+ 9
Expected employment	+ 1	- 5
Investment intentions	+ 9	+11
Attempted recruitment	+34	n/a
Recruitment problems	+ 6	n/a

Table 2 Aggregate Scottish responses to November SCBS: retailing

	Percentage balance: November	August
Overall confidence	-12	+16
Actual sales	+33	+38
Expected sales	+17	+21
Actual employment	0	- 4
Expected employment	+ 1	-15
Investment intentions	0	+15
Attempted recruitment	+10	n/a
Recruitment problems	- 4	n/a

TRANSPORT

Sealink Stena, the Swedish company which purchased Sealink in January, has announced a £178 million investment and restructuring package which will involve 800 job losses across the UK, 260 of which will be at the Sealink terminal at Stranraer. At the same time, it will invest £8 million in Stranraer under its current programme, mainly on a loading ramp, and plans to invest £20 million in 1992 to create a new passenger terminal. Both of these, it is hoped, will eventually create new employment at Stranraer.

In the rail sector, British Rail has put back by a year plans to invest £750 million on improving the Glasgow-London Service, blaming a revenue shortfall. BR had intended to spend £250 million on introducing Intercity 250s which would have a top speed of 155 mph and would cut Glasgow-London journey times to under four hours, with the remainder spent on electrification and signalling improvements.

Elsewhere, there continues to be a good deal of discussion concerning the future prospects of Prestwick airport. The Chairman of the British International Freight Association recently reiterated the view that Prestwick's facilities are a great asset for Scottish businesses, specifically citing the electronics industry where the ability of Prestwick to effect fast delivery of high value added components from both the USA and the Far East is an important factor in attracting foreign industry. The ability of Scottish industry to become involved in globally integrated just-in-time manufacture is, he believes, a significant advantage, and it is one which those seeking to develop the airport's freight role should stress. We ourselves would again reiterate that improved surface access to Prestwick would further enhance these prospects. Meanwhile, the Civil Aviation Authority has given Prestwick a welcome boost with the announcement of plans to invest £30 million in upgrading its air traffic control centre.

HEALTH

Little 'hard' news of economic interest can be reported this quarter. It is still unclear if any hospitals in Scotland will opt for trust status - four 'expressions of interest' have been received by SHHD - or how many, if any, GP practices wish to become budgetholders. This apparent lack of interest suggests that the new contractual system for the NHS, formally tabled to start on 1 April 1991, will take a long time to implement fully in Scotland. Meanwhile the newly-constituted, slimmed-down (12 member) Health Boards will come into operation on this date and will be expected to make suitable arrangements - the precise nature of these arrangements being left open to the respective Boards - for separation of their functions as purchasers of health services from their roles as providers. Initially much within-Board 'trading' can be expected.

'Health in Scotland 1989', the Chief Medical Officer's report, was published on 6 November. A series of figures portray a depressing picture of Scotland's health. Twenty-four European and 'first world' countries are represented in these figures. The following are some of the 'highlights'. Males in Scotland have shorter life expectancy at birth than those in all 23 other countries, with Scottish females second last in the equivalent league table. Scottish females are first in the lung cancer league table, by a very big margin, with a 20% higher death rate than for the USA, lying second; Scottish males are second. There is some possibility in the age-specific evidence that younger males in Scotland are beginning to move down this particular league table but sadly the lung cancer rate in women is still rising. The situation is little better in diseases of the circulation (mainly heart disease and stroke) where Scottish males are third in the league table (first, though, in heart disease) and Scottish females second. Deaths from external causes - accidents, poisoning, violence - are also a major cause for concern, although Scotland is nearer the 'bottom' than the 'top' of these league tables.

The report also includes articles on health issues in Fife, Greater Glasgow and Highland regions by the respective Directors of Public Health. For greater Glasgow it is reported that there is a clear correlation between standardised death rates and socio-economic status with the more disadvantaged areas having the higher death rates. Suggesting that adverse environmental factors are of paramount importance, the Director does not mince his words: "It is a striking fact that within the boundary of the Greater Glasgow Health Board there are Eastwood and Bearsden and Milngavie Local Government districts, with among the most healthy District populations in Scotland, and parts of Glasgow District which are the least healthy in Scotland. This differential impels the health Board to seek to deliver its community health services in such a way as to discriminate positively in favour of the deprived populations with poor health standards." In Highland Region over 40% of deaths are caused by coronary heart disease and strokes and the figures for suicide and alcoholism are sufficiently serious to warrant comment by the region's Director.

Why does the report recommend? A series of things, with a strong emphasis on health promotion, especially education on the effects of cigarette smoking and alcohol. On the environmental issues brought up in the Glasgow context "action as well as investigation" is called for. In the report the figure of £2,852 million is given as expected total expenditure on the NHS in Scotland. The provisional figure from the Scottish Office for 1991 is £3,087 million. Can it honestly be said the the resources represented by these sums of money are likely to deliver the substantial improvements in Scotland's health that are clearly required? Do Scotland's medical decision makers really feel that the present government's intended changes to the NHS will deliver these improvements? Is it not time to stress that the 'actions' most likely to improve Scotland's health status would be to increase the incomes of the poorer sections of the society and to see that everybody is decently housed? Is it not also high time governments ordered their taxation and expenditure policies to achieve these goals? Certainly, continue to strengthen health promotion and the other potentially worthy activities to which the Chief Medical officer refers. But is is imperative that society's resources are allocated in ways that make "Health in Scotland 2000" happier reading than the bleak 1989 volume.

The Labour Market

Past Commentaries have noted that recent experience of changes in official estimates of employment data emphasise the need for caution amongst those who seek to interpret recent labour market trends. Significant under-reporting of employment growth had apparently occurred prior to the 1988 Labour Force Survey (LFS). However, the recently published results of the 1987 Census of Employment suggested that LFS estimates over-estimated the extent of under-recording of employment. The most recent estimates, however, apparently based on the 1989 LFS, have been adjusted upwards as compared to the 1987 census-based estimates.

The revisions to the estimates of the numbers of employees in employment in Scotland generated by the recent revisions are reported in Tables 1 and 2. On the original estimates total employees in employment grew by 26,000 roughly 1.4% over the year to March 1989. The census-based revised estimates showed an increase of 18,000 or 1.0% (on a base estimate which is lower by 0.5% than originally). In March 1989 for example, the number of employees in employment had been revised downward due to the census by a total of 18,000, which is equivalent to a decrease in estimated employment levels of 1.1% of the employment stock. However, the latest estimates imply that total employment grew by 47,000 or 2.5% over the year to March 1989. If current figures are to be believed the original data under not over estimated employment growth.

The earlier 1988 LFS based revisions seemed to imply a rather different picture of labour market flows than was previously available. Thus a number of Commentaries had commented on the "puzzle" of decreasing levels of unemployment juxtaposed against fairly stable employment. For example, over the year to September 1988 unemployment fell by some 37,000 yet the number of employees in employment was originally estimated to have risen by only 5,000 over the same period. It appeared that as unemployment was falling, employment was in fact increasing by a comparable amount, although recorded employment failed to pick this up at the time. The census based estimates of employment were apparently also compatible with this account. Although the estimated level of employees in employment at September 1987 was reduced to 1880.7, the implied increase to September 1988 was 42.2 thousand. The new estimates imply that this underestimated employment growth by some 14 thousand.

The composition of the downward revision to the numbers of employees in employment due to the census, was for March 1989, as follows. Of the total reduction of 18,000 in estimated employees in employment none are male. In fact estimates of part-time female employment were reduced significantly below those implied by the LFS (wherein such employment was the only employment to be revised downward). Thus estimates of part-time female employment at March 1989 were reduced by some 26,000 to 361,000, implying that estimates of full-time female employment had increased by some 8,000. However, the 1989 LFS based estimates come close to restoring the 1988 LFS based view. Total female employment is now estimated to have increased by some 30,000 more than was implied by the census based estimates. In fact this total is greater than that in the 1988 LFS based estimate, although the current estimate of part-time female employment has fallen.

The most recent employment data (available only on the basis of LFS induced revisions) are for June 1990, and those are also reported in Tables 1 and 2. Overall, total employees in employment increased by 41,000 (2.1%) in the year to June 1990. Male employees in employment rose by 10,000 (1.0%), and total female employment increased by 31,000 (3.3%). Part-time female employment rose by 11,000 (2.9%), whereas full-time female employment grew by some 20,000 or 3.6%. If part-time is interpreted as "one-third time", then full time equivalent employment rose by about 34,000 (1.8%). This employment gain is much the same as the annual growth to March 1990, but the growth in male and female full-time employment remains encouraging relative to past experience. About eleven thousand of the increased employment occurred in production and construction industries, and 32,000 in services, a pattern consistent with the much greater increase in female employment (especially full-time female employment).

Table 1 **Employees in employment in Scotland: industry aggregates (000's)**
(Figures in parentheses reflect revisions due to 1988 LFS and those in square brackets reflect 1987 census up to Spring 1988 and the 1989 LFS thereafter)

	Male	Female All	Female Part-time	Total	Production & construc. industries	Production industries	Manufacturing industries	Services industries
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1986 Sept	1,020	866	367	1,886	595	460	409	1,261
Dec	1,006	868	375	1,874	586	451	404	1,259
1987 Mar	997	865	375	1,862	578	442	396	1,254
June	1,006	880	379	1,886	579	441	395	1,277
	(1,010)	(882)		(1,892)				
Sept	1,001	878	383	1,879	577	437	392	1,273
	(1,011)	(884)	(381)	(1,895)	(584)	(442)	(397)	(1,283)
Dec	996	881	389	1,877	572	432	388	1,278
	(1,012)	(891)	(385)	(1,903)	(582)	(440)	(395)	(1,294)
1988 Mar	989	879	387	1,868	570	429	386	1,271
	(1,010)	(893)	(381)	(1,903)	(584)	(439)	(396)	(1,292)
	[1,013]	[880]	[362]	[1,893]	[591]	[464]	[408]	[1,274]
June	996	892	389	1,888	568	427	385	1,292
	(1,020)	(908)	(383)	(1,928)	(584)	(439)	(396)	(1,316)
	[1,021]	[890]	[361]	[1911]	[592]	[466]	[408]	[1,290]
Sept	992	892	389	1,884	569	427	387	1,287
	(1,022)	(910)	(382)	(1,932)	(588)	(443)	(400)	(1,315)
	[1,027]	[909]	[368]	[1,936]	[600]	[475]	[417]	[1,307]
Dec	(1,020)	(923)	(396)	(1,942)	(589)	(443)	(402)	(1,327)
	[1,016]	[921]	[380]	[1,937]	[602]	[478]	[420]	[1,307]
1989 Mar	(1,015)	(914)	(387)	(1,929)	(587)	(440)	(401)	(1,314)
	[1,016]	[924]	[376]	[1,941]	[601]	[476]	[418]	[1,311]
Jun	[1,018]	[941]	[384]	[1,959]	[599]	[474]	[416]	[1,331]
Sept	[1,031]	[947]	[376]	[1,977]	[606]	[482]	[423]	[1,342]
Dec	[1,029]	[958]	[390]	[1,988]	[606]	[484]	[424]	[1,354]
1990 Mar	[1,022]	[955]	[382]	[1,977]	[602]	[481]	[420]	[1,347]
Jun	[1,028]	[972]	[395]	[2,000]	[607]	[485]	[424]	[1,363]

Source: Department of Employment Gazette.

Table 2 Employment: Scotland Employees in employment ('000s)*

SIC 1980	Agric./ forestry/ fishing 0		Energy and water supply 1		Metal Manuf. & chemicals 2		Met.goods, Eng. & vehicles 3		Other Manuf. 4		Constr- uction 5	
1979	48		72		82		258		265		155	
1983	37		68		55		195		194		134	
1984 Mar	36		66		52		189		191		136	
June	35		65		53		189		192		136	
Sept	37		65		53		187		193		139	
Dec	33		65		53		188		192		138	
1985 Mar	32		63		53		187		190		137	
June	34		60		52		188		191		136	
Sept	36		59		51		189		189		136	
Dec	31		58		50		186		187		135	
1986 Mar	31		56		49		184		183		133	
June	31		53		48		182		181		134	
Sept	30		51		48		180		181		135	
Dec	29		47		47		178		179		135	
1987 Mar	30		46		47		176		173		136	
June	30		45		46		177		172		135	
Sept	28 (28)		45 (45)		46 (46)		175 (177)		171 (173)		140 (142)	
Dec	27 (27)		44 (44)		46 (47)		173 (176)		169 (172)		140 (142)	
1988 Mar	27 (27)	[28]	42 (43)	[57]	46 (47)	[48]	172 (177)	[161]	168 (172)	[199]	141 (144)	[126]
June	28 (28)	[29]	42 (43)	[58]	45 (46)	[47]	173 (178)	[161]	167 (172)	[200]	141 (145)	[126]
Sept	28 (28)	[30]	41 (42)	[58]	45 (47)	[47]	175 (181)	[165]	166 (172)	[205]	142 (145)	[125]
Dec	(27)	[28]	(41)	[58]	(48)	[48]	(183)	[166]	(171)	[206]	(146)	[124]
1989 Mar	(27)	[28]	(40)	[58]	(48)	[48]	(185)	[168]	(168)	[203]	(147)	[125]
June		[29]		[58]		[47]		[166]		[202]		[125]
Sept		[30]		[59]		[48]		[168]		[207]		[124]
Dec		[28]		[60]		[49]		[169]		[206]		[122]
1990 Mar		[28]		[61]		[49]		[168]		[203]		[121]
Jun		[30]		[61]		[47]		[170]		[207]		[121]

(cont.)

Table 2 Employment: Scotland Employees in employment ('000s)* (cont)

SIC 1980	W/sale dist. hotels & catering 61-63 66-67		Retail distrib 64/65		T/sport & communi- cation 7		Banking, insurance & finance 8		Public admin & defence 91-92		Educ. health & oth. ser 93-99	
1979	197		194		135		123		170		403	
1983	188		183		119		140		171		416	
1984 Mar	180		183		118		138		170		421	
June	193		186		115		141		170		425	
Sept	193		186		115		146		170		419	
Dec	187		196		114		146		169		422	
1985 Mar	188		184		115		147		169		427	
June	195		185		115		146		170		432	
Sept	198		188		115		151		172		428	
Dec	191		193		113		150		171		433	
1986 Mar	190		187		111		151		172		428	
June	199		186		110		155		175		435	
Sept	199		187		111		158		176		431	
Dec	190		191		108		159		176		436	
1987 Mar	189		183		106		161		176		439	
June	198		185		108		165		177		444	
Sept	202 (203)		182 (183)		108 (109)		164 (166)		179 (180)		439 (442)	
Dec	194 (197)		191 (193)		106 (108)		166 (169)		179 (181)		442 (446)	
1988 Mar	199 (202)	[187]	184 (186)	[181]	105 (107)	[114]	165 (169)	[161]	180 (183)	[186]	439 (445)	[445]
June	208 (212)	[193]	185 (187)	[180]	105 (108)	[115]	169 (173)	[165]	181 (185)	[188]	444 (452)	[449]
Sept	203 (207)	[191]	185 (188)	[184]	103 (106)	[117]	174 (179)	[169]	178 (184)	[190]	443 (451)	[456]
Dec	(205)	[188]	(188)	[188]	(106)	[115]	(179)	[169]	(175)	[183]	(469)	[463]
1989 Mar	(201)	[189]	(188)	[186]	(104)	[115]	(183)	[172]	(168)	[184]	(469)	[465]
June		[197]		[188]		[116]		[174]		[187]		[469]
Sept		[198]		[189]		[116]		[176]		[187]		[477]
Dec		[191]		[193]		[116]		[177]		[189]		[487]
1990 Mar		[187]		[187]		[117]		[179]		[190]		[487]
June		[198]		[189]		[115]		[180]		[192]		[489]

Source: Department of Employment Gazette

Table 3	Unfilled Vacancies at Jobcentres – Scotland Vacancies at Jobcentres (Thousands)				
	Seasonally adjusted				Vacancies at Career Offices
	Number	Change since prev. month	Average chge over 3 months ending	Unad-justed Total	Unad-justed
1988 Jan	19.6	-1.0	-0.3	16.8	0.5
Feb	19.5	-0.1	-0.5	17.0	0.5
Mar	19.8	0.3	-0.3	18.5	0.5
Apr	20.6	0.9	0.3	20.6	0.4
May	20.1	-0.5	0.2	21.3	0.7
Jun	19.6	-0.4	0.0	21.0	0.7
Jul	19.8	0.2	-0.3	21.2	0.6
Aug	20.0	0.2	0.0	20.7	0.6
Sep	20.0	0.0	0.1	21.8	0.6
Oct	20.6	0.6	0.3	22.0	0.4
Nov	20.0	-0.6	0.0	20.5	0.5
Dec	20.5	0.5	0.2	18.8	0.4
1989 Jan	20.0	-0.3	-0.1	17.0	0.5
Feb	19.9	-0.1	-0.0	17.2	0.5
Mar	19.8	0.1	-0.2	18.5	0.5
Apr	20.3	0.5	0.1	20.2	0.6
May	20.5	0.2	0.2	21.5	0.7
Jun	21.8	0.0	0.7	23.3	1.0
Jul	21.8	0.0	0.5	23.1	0.9
Aug	22.1	0.3	0.5	22.7	0.9
Sep	22.6	0.5	0.3	24.5	1.0
Oct	23.4	0.8	0.5	25.2	0.8
Nov	24.7	1.3	0.9	25.3	0.9
Dec	23.4	-1.3	0.3	21.9	1.1
1990 Jan	22.8	-0.6	-0.2	19.8	1.1
Feb	21.9	-0.9	-0.9	19.2	1.0
Mar	21.8	-0.1	-0.5	20.5	1.2
Apr	23.0	1.2	0.1	22.9	1.5
May	22.5	-0.5	0.2	23.6	1.3
Jun	22.3	-0.2	0.2	23.8	1.4
Jul	22.0	-0.3	-0.3	23.3	1.2
Aug	22.6	0.6	0.0	23.2	1.1
Sep	22.6	0.0	0.1	24.5	1.1

* Vacancies at jobcentres are only about one third of all vacancies in the economy

Source: Employment Department Press Notice

Over the year to June 1990 the biggest employment gains were registered by: education etc. (20,000); public admin. etc. (5,000); banking, insurance and finance (6,000) and other manufacturing (5,000). Construction registered the biggest employment loss (4,000) and 1,000 jobs were also lost in transport and communication.

Vacancies: Stocks and Flows

Over the year to September 1990 unfilled vacancies at job centres in Scotland fluctuated between 21.8 (19.2) and 24.7 (25.3) thousands on a seasonally adjusted (unadjusted) basis (Table 3). Vacancies have been slightly higher as compared to the same period in 1989. Indeed a trend increase has been discernible since the "trough" (at around 10.8 thousand) of 1981. However, the stability in the stock of unfilled vacancies conceals considerable activity in terms of gross inflows and outflows (Table 4). These were of a similar order of magnitude to the outstanding stock of vacancies in each month. For example, in September 1990 inflows of 22.8 thousand (0.2 thousand more than the previous year) were exactly matched by outflows. During 1989 there were a total of over 266,000 vacancies at job centres, well over 90% of which resulted in placings. The short average duration of vacancies is a sign that employers on average do not find it difficult to fill posts because of a continuing slackness in the labour market (although employers may still find it difficult to recruit specific skills in particular locations).

Unemployment: Stocks and Flows

Recent data on the seasonally adjusted unemployment stock are presented in Table 5. The most recent data, of course, reflect the current rules governing eligibility to claim benefit which have been in place since September 1988. These reflect the extension of a guaranteed offer of a YTS place to all those under 18 who have not found a job, under the Employment Training Scheme. Under 18s are consequently not entitled to claim benefit and so are excluded from the unemployment count. Table 5 presents a short time series of unemployment in the old as well as the new basis to facilitate comparison.

September 1990 saw a fall of some 0.9 thousand in total unemployment (of which 1.1 thousand was attributable to females whereas male unemployment

Table 4: Vacancy flows at Jobcentres, standardised, seasonally adjusted
Scotland

	In-flow		Out-flow		Thousands of which: Placings	
Date	Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1987 Oct	20.9	0.2	20.1	0.1	17.2	0.0
Nov	21.7	0.6	21.1	0.6	18.0	0.4
Dec	22.1	0.6	22.2	1.0	18.8	0.8
1988 Jan	20.5	-0.1	21.6	0.5	18.1	0.3
Feb	20.2	-0.5	20.6	-0.2	17.3	-0.2
Mar	20.6	-0.5	20.4	-0.6	17.1	-0.6
Apr	20.7	0.1	20.4	-0.4	17.3	-0.3
May	20.8	0.2	20.5	0.0	17.4	0.0
June	20.9	0.1	21.5	0.4	18.2	0.4
Jul	20.1	-0.2	19.8	-0.2	16.6	-0.2
Aug	20.9	0.0	20.7	0.1	17.5	0.0
Sep	21.2	0.1	20.7	-0.3	17.4	-0.3
Oct	20.9	0.2	20.8	0.3	17.5	0.2
Nov	21.0	0.1	21.6	0.4	18.4	0.4
Dec	21.5	0.1	20.9	0.0	17.8	0.1
1989 Jan	20.4	-0.2	20.7	0.0	17.5	0.0
Feb	21.9	0.3	22.3	0.2	19.1	0.2
Mar	21.1	-0.1	21.3	0.1	18.0	0.1
Apr	21.3	0.3	20.9	0.1	17.6	0.0
May	21.4	-0.2	20.9	-0.5	17.7	-0.5
Jun	21.9	0.3	20.1	-0.4	17.1	-0.3
Jul	22.1	0.3	22.0	0.4	18.5	0.3
Aug	23.1	0.6	22.8	0.6	19.2	0.5
Sep	22.6	0.2	22.2	0.7	18.6	0.5
Oct	24.1	0.7	23.4	0.5	19.8	0.4
Nov	24.6	0.5	23.4	0.2	19.7	0.2
Dec	22.1	-0.2	22.6	0.1	19.1	0.2
1990 Jan	19.8	-1.4	20.7	-0.9	17.5	-0.8
Feb	22.4	-0.7	23.9	0.2	19.8	0.0
Mar	22.1	0.0	22.2	-0.1	18.3	-0.3
Apr	22.2	0.8	21.8	0.4	17.8	0.1
May	22.3	0.0	21.9	-0.7	18.0	-0.5
Jun	21.1	-0.3	21.1	-0.4	17.4	-0.3
Jul	23.7	0.5	23.9	0.7	20.2	0.8
Aug	23.4	0.4	22.8	0.3	18.8	0.3
Sep	22.8	0.6	22.8	0.6	18.2	0.3

Source: Department of Employment

Table 5 Scotland - Unemployment - seasonally adjusted (excluding school leavers (000s) (Figures in parentheses reflect estimates on September 1988 basis - see text for details)

Date	Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate percentage of working population
1984	235.2	106.4	341.6			14.0
1985	243.6	109.3	353.0			14.2
1986	248.1	111.8	359.8			14.5
1986 Dec	242.6	104.8	347.4	1.2	1.1	14.0
1987 Dec	218.2	90.5	308.7	-2.6	-4.2	12.4
	(214.5)	(87.8)	(302.3)	(2.8)	(-4.1)	(12.2)
1988 Oct	(193.4)	(76.7)	(270.1)	(-2.2)	(-3.1)	(10.9)
Nov	(191.0)	(75.5)	(266.5)	(-3.6)	(-3.1)	(10.7)
Dec	(186.7)	(73.5)	(260.2)	(-6.3)	(-3.3)	(10.5)
1989 Jan	(184.0)	(72.6)	(256.6)	(-3.6)	(-3.2)	(10.3)
Feb	(181.7)	(71.7)	(253.4)	(-3.2)	(-3.3)	(10.1)
Mar	(180.2)	(70.3)	(250.5)	(-2.9)	(-3.6)	(10.0)
Apr	(175.1)	(68.2)	(243.3)	(-7.2)	(-4.5)	(9.7)
May	(172.8)	(66.7)	(239.5)	(-3.8)	(-4.5)	(9.7)
Jun	(170.0)	(65.0)	(235.0)	(-4.5)	(-4.2)	(9.4)
Jul	(168.9)	(63.9)	(232.8)	(-2.2)	(-4.0)	(9.4)
Aug	(167.7)	(63.3)	(231.0)	(-1.8)	(-3.7)	(9.3)
Sep	(163.0)	(61.8)	(224.8)	(-6.2)	(-4.3)	(9.1)
Oct	(159.2)	(60.4)	(219.6)	(-5.2)	(-4.0)	(8.8)
Nov	(155.8)	(59.0)	(214.8)	(-4.8)	(-4.1)	(8.6)
Dec	(153.0)	(57.5)	(210.5)	(-4.3)	(-4.1)	(8.5)
1990 Jan	(150.6)	(56.5)	(207.1)	(-3.4)	(-4.3)	(8.3)
Feb	(150.4)	(56.0)	(206.4)	(-0.7)	(-4.1)	(8.2)
Mar	(149.5)	(55.3)	(204.8)	(-1.6)	(-3.3)	(8.2)
Apr	(148.5)	(55.3)	(203.8)	(-1.0)	(-2.6)	(8.1)
May	(147.2)	(54.4)	(201.6)	(-2.2)	(-2.2)	(8.0)
Jun	(147.0)	(54.2)	(201.2)	(-0.4)	(-1.6)	(8.0)
Jul	(147.8)	(53.7)	(201.5)	(0.3)	(-0.9)	(8.0)
Aug	(147.5)	(52.8)	(200.3)	(-1.2)	(-1.0)	(8.0)
Sep(p)	(147.5)	(51.7)	(199.4)	(-0.9)	(-0.9)	(7.9)

Source: Department of Employment

Table 6: Unemployment flows - standardised, unadjusted: Scotland (000s)

Month ending		In-flow	Out-flow
1987	Oct	46.7	54.5
	Nov	44.0	47.5
	Dec	38.2	35.3
1988	Jan	43.0	34.6
	Feb	39.8	48.2
	Mar	35.6	46.1
	Apr	38.3	44.6
	May	32.5	45.8
	Jun	35.5	44.2
	Jul	43.0	41.5
	Aug	34.2	40.1
	Sep*	43.4	43.3
	Oct	37.9	55.2
	Nov	36.6	38.4
	Dec	33.5	34.3
1989	Jan	32.2	26.9
	Feb	33.1	40.7
	Mar	31.7	39.0
	Apr	30.5	38.9
	May	27.3	38.6
	Jun	27.9	35.5
	Jul	37.1	33.5
	Aug	30.9	33.5
	Sep	33.0	41.6
	Oct	31.9	38.2
	Nov	31.5	34.2
	Dec	27.8	26.8
1990	Jan	29.7	22.9
	Feb	31.9	35.7
	Mar	29.5	35.5
	Apr	29.7	33.3
	May	25.8	35.9
	Jun	29.1	31.5
	Jul	38.5	30.2
	Aug	29.9	30.5
	Sep	32.5	37.6

* The September figures are biased by the postal strike.

rose by 0.2 thousand). This suggests perhaps that the end of the continuous decline in unemployment since 1986 in July simply reflects a "hiccup" in the downward trend. However, it seems likely that matters will deteriorate over the foreseeable future given UK conditions and apparent prospects. Over the year to September 1990 total unemployment fell by about 25 thousand, from 224.8 thousand or 1.2 full percentage points. This represents a reduction in the level of unemployment of 11.1 per cent. Furthermore, 15,300 of the reduction occurred among males and around 10,100 among females.

Table 6 presents recent flows into and out of the unemployment stock. In September 1990 inflows were at 32.5 thousand, about 0.5 thousand more than in the same month of 1989. Outflows were, at 37.6 thousand, 4,000 less than in September 1989. If gross outflows were maintained at their September 1990 level the unemployment stocks of 199,400 would turnover in just over 6 months.

Regional Review

INTRODUCTION

The The Labour Market section, changes in Scottish employment patterns were analysed. However, whilst labour market movements differ between Scotland and the UK as a whole, they also vary within Scotland and the purpose of Regional Review is to examine sub-Scottish movements in the employment situation. Inter-authority variations which have occurred over the last year will be highlighted as well as intra-regional disparities.

The data used in the previous section was typically adjusted for seasonal factors. Data availability necessitates that unadjusted figures be used for disaggregated analysis and thus cautious interpretation should be exercised when comparing current unemployment with that which prevailed in the preceding quarter and month.

In this issue of the Commentary we continue to use two types of unemployment rate. Until the end of last year only a narrow measure was available for local authority calculations. These are based on an incomplete definition of the workforce which includes only employees in employment and the unemployed but excludes the self-employed, HM Forces and those on work-related government training programmes. The more recent wide/workforce based calculations incorporates all of the above components and thus it is a more accurate reflection of the unemployment position. On the whole, both rates have been used but in assessing intra-regional variations only wide-based rates are incorporated.

Time Series Analysis

It has already been mentioned that the data used in this section has not been adjusted to take account of seasonal factors. When comparing the unemployment situation in October 1990 with that which prevailed in October last year, this is not problematic. However, it is desirable to look at movements which have occurred within periods of less than one year and this can give rise to difficulties regarding data compatibility. By analysing a time-series of unadjusted unemployment totals, a picture of the seasonal troughs and peaks in the Scottish labour market should emerge thereby circumventing this problem. It should then be possible to separate out seasonal swings in unemployment from underlying trends within time periods of less than a year.

Table 1 presents information on the unemployment situation in Scotland for the twelve months to October 1990. Over the year, the workforce-based unemployment rate has fallen from 8.5% to 7.7%, but the pace and indeed direction of this decline has been far from steady. The most substantial decrease occurred between April and May with the rate falling by 0.4%. In contrast, a 0.2% increase occurred between December and January, and between June and July, a rise of 0.3% was noted. Between August and September of 1989, the decrease in the wide unemployment rate was 0.4% with a fall of 0.3% occurring between September and October. The corresponding figures for the same months in 1990 are -0.2% and -0.1%. This suggests that the unemployment situation has worsened over the past twelve months and indeed were it not for seasonal influences, unemployment may have risen between September and October. However, as can be seen from the seasonally adjusted data in the Labour Market section, the monthly change in unemployment totals is still negative, although proportionally well-below the position in the previous twelve months. Seasonal influences would appear to result in falls in unemployment between April and May and August and October but increases between December and January and June and July.

Table 1 also indicates the proportional change in unemployment totals between each months. Not surprisingly, these changes broadly mirror the movements noted for unemployment rates. The greatest reduction in monthly totals again occurred between April and May with a proportional fall of 4.4%. At the other end of the spectrum, a 4.0% rise was witnessed between June and July and a 3.0% increase was recorded between December and January. In the last month reviewed, the percentage decrease was 1.1% compared with 2.6% in October 1989. The August/September change was -4.3% in 1989 against -2.9% in 1990. The trend in unemployment totals remains downwards but the pace of change is certainly slowing down.

Table 1 Unemployment Totals - Unadjusted Times Series, Scotland

	Unemployment Rate (%)	Total	% Change on Previous Month	Male	% Change on Previous Month	Female	% Change on Previous Month
1989 Oct	8.5	214,125	-2.6	155,339	-2.1	58,786	-4.0
Nov	8.4	211,691	-1.1	153,759	-1.0	57,932	-1.5
Dec	8.5	212,861	+0.6	155,546	+1.2	57,315	-1.1
1990 Jan	8.7	219,176	+3.0	159,880	+2.8	59,296	+3.5
Feb	8.6	215,701	-1.6	157,314	-1.6	58,387	-1.5
Mar	8.4	210,102	-2.6	153,811	-2.2	56,291	-3.6
Apr	8.2	205,905	-2.0	150,977	-1.8	54,927	-2.4
May	7.8	196,542	-4.4	145,234	-3.8	51,308	-6.6
Jun	7.7	193,767	-1.4	142,657	-1.8	51,110	-0.4
Jul	8.0	201,439	+4.0	145,101	+1.7	56,338	+10.2
Aug	8.0	200,926	-0.3	144,454	-0.4	56,472	-0.2
Sep	7.8	195,078	-2.9	143,881	-0.4	51,197	-9.3
Oct	7.7	192,956	-1.1	143,527	-0.2	49,429	-3.5

Source: Department of Employment

Comparing the time-series for male and female unemployment, there is evidence that the female labour market is subject to more variation than that for males. In July, female unemployment rose by 10.2% against 1.7% for the males, averaging out to a total proportional increase of 4%. This pattern is repeated to a lesser degree throughout almost all the time series suggesting that females participate in seasonal employment to a greater extent than their male counterparts.

Total Unemployment

Table 2 shows for each local authority region and island and for Scotland as a whole, the narrow and wide unemployment rate, the numbers unemployed in October 1989 and 1990 and the change which has occurred over the twelve months. Quarterly and monthly changes are also indicated but the utilisation of unadjusted data means that careful interpretation of these short-term shifts is required. While they may be indicative of developing trends, they are more useful for the purposes of drawing inter-authority comparisons.

In the year to October 1990, Scottish unemployment fell by 21,169, a 9.9% drop, to stand at 192,956. This represents 7.7% of the workforce or 8.8% of the narrowly-defined labour force, an improvement on the corresponding 8.6% and 9.7% of October 1989. Over the last quarter, there was a 4.2% decrease in the numbers out of work, a fall of 8,483. There was a 1.1% proportional decrease between September and October but this compares poorly with the 2.6% monthly decline evident at the same time last year.

As can be seen from Table 2, there were annual declines in the unemployment totals in all local authorities. The most substantial decrease was again evident in Grampian where a 20.9% fall in unemployment totals is apparent. Significant decreases were also noted in the Borders (16.4%), Shetland (15.8%) and the Orkney Islands (14.2%). In absolute terms, Strathclyde experienced the biggest fall, a reduction of some 11,987. This accounted for 56.6% of the total Scottish decline but proportionally it was only a 9.9% decrease for Strathclyde. Significantly below average decreases were noted in Dumfries and Galloway (4.6%) and the Western Isles (3.1%). Changes in sub-Scottish unemployment totals reveals considerable disparities in the fortunes of local labour markets and analysis of unemployment rates

Table 2: Unemployment by Region

	% rate Oct 90 Narrow	% rate Oct 90 Wide	Total Oct 90	Total Oct 89	Total Annual Change	% Change in Annual Totals	Total Jul 90	Total Quarterly Change	% Change in Quarterly Totals	Total Sep 90	Total Monthly Change	% Change in Monthly Totals
Borders	4.3	3.5	1,744	2,087	-343	-16.4	1,961	-217	-11.1	1,748	-4	-0.2
Central	9.7	8.4	10,087	10,834	-747	-6.9	10,745	-658	-6.1	10,276	-189	-1.8
Dumfries & Galloway	7.3	5.8	4,152	4,352	-200	-4.6	4,289	-137	-3.2	4,191	-39	-0.9
Fife	9.3	8.1	11,827	13,244	-1,417	-10.7	12,286	-459	-3.7	11,852	-25	-0.2
Grampian	3.7	3.2	8,772	11,090	-2,318	-20.9	9,236	-464	-5.0	8,832	-60	-0.7
Highland	8.5	7.0	7,058	7,636	-578	-7.6	6,731	+327	+4.9	6,657	+401	+6.0
Lothian	6.9	6.1	25,071	26,864	-1,793	-6.7	25,680	-609	-2.4	25,402	-331	-1.3
Strathclyde	11.2	9.8	108,710	120,697	-11,987	-9.9	114,159	-5,449	-4.8	110,481	-1,771	-1.6
Tayside	7.9	6.8	13,353	14,959	-1,606	-10.7	14,238	-885	-6.2	13,543	-190	-1.4
Orkney Is.	6.1	4.3	423	493	-70	-14.2	407	+16	+3.9	389	+34	+8.7
Shetland Is.	3.3	2.7	345	410	-65	-15.8	366	-21	-5.7	334	+11	+3.3
Western Is.	13.3	10.2	1,414	1,459	-45	-3.1	1,341	+73	+5.4	1,373	+41	+3.0
Scotland	8.8	7.7	192,956	214,125	-21,169	-9.9	201,439	-8,483	-4.2	195,078	-2,122	-1.1

Source: Department of Employment

Table 3: Male Unemployment by Region

	% rate Oct 90 Narrow	Wide	Total Oct 90	Total Oct 89	Total Annual Change	% Change in Annual Totals	Total Jul 90	Total Quarterly Change	% Change in Quarterly Totals	Total Sep 90	Total Monthly Change	% Change in Monthly Totals
Borders	5.8	4.3	1,262	1,444	-182	-12.6	1,351	-89	-6.6	1,260	+2	+0.2
Central	12.8	10.6	7,109	7,494	-385	-5.1	7,214	-105	-1.5	7,113	-4	-0.1
Dumfries & Galloway	9.2	6.7	2,823	2,840	-17	-0.6	2,852	-29	-1.0	2,795	+28	+1.0
Fife	12.5	10.3	8,530	9,177	-647	-7.1	8,610	-80	-0.9	8,508	+22	+0.3
Grampian	4.5	3.7	6,035	7,440	-1,405	-18.9	6,018	+17	+0.3	6,034	+1	-
Highland	11.4	8.8	5,111	5,347	-236	-4.4	4,833	+278	+5.8	4,886	+225	+4.6
Lothian	9.9	8.4	18,885	19,591	-706	-3.6	18,826	+59	+0.3	18,838	+47	+0.2
Strathclyde	15.5	13.0	82,666	89,914	-7,248	-8.1	84,099	-1,433	-1.7	83,390	-724	-0.9
Tayside	10.5	8.5	9,520	10,393	-873	-8.4	9,799	-279	-2.8	9,544	-24	-0.3
Orkney Is.	8.0	5.0	288	319	-31	-9.7	272	+16	+5.9	266	+22	+8.3
Shetland Is.	4.0	3.0	230	256	-26	-10.2	242	-12	-5.0	224	+6	+2.7
Western Is.	18.5	12.6	1,068	1,124	-56	-5.0	985	+83	+8.4	1,023	+45	+4.4
Scotland	12.1	10.0	143,527	155,339	-11,812	-7.6	145,101	-1,574	-1.1	143,881	-354	-0.2

Source: Department of Employment

confirms this observation.

The island authorities display greatest variation with the rate in the Western Isles (10.2%) some 3.78 times that of Shetland (2.7%) and 2.37 times the rate in Orkney (4.3%). This is a reflection of the unique economic characteristics affecting the island areas with oil-related activities exerting considerable downward pressure on the unemployment totals in Orkney and Shetland but having little impact in the Western Isles. Grampian region has also benefited from North Sea oil employment and exhibits the lowest unemployment rate on mainland Scotland at just 3.2%. In terms of unemployment rate, the Borders is also healthy with only 3.5% of the workforce unable to secure employment. Unlike the other low unemployment areas, there is not a concentration of employment in the high-earning oil-related sector but rather an above average proportion of employees in low-earning agriculture and the fragile textiles industry.

Excluding the islands, as a percentage of the workforce, unemployment is greatest in Strathclyde at 9.8% but Central and Fife with respective rates of 8.4% and 8.1%, are also faring badly. The same broad pattern is apparent in analysis of the narrow rates with Shetland's 3.3% and the Western isles 13.3% marking the extremes.

The differential between the wide and the narrow unemployment rate is greatest in the Western Isles where 3.1% separates them.

In Orkney the difference is 1.8% and in Dumfries and Galloway and Highland, 1.5%. The difference between the wide and narrow unemployment rate is the number who are self-employed, in HM Forces or on government-related training programmes. The authorities with significant differentials are rural and thus the bigger gaps are likely to reflect the concentration of agricultural and fishing activity characteristic to rural Scotland and the higher levels of self-employment associated with these industries. In the Western Isles however, it is also likely to reflect the generally higher levels of unemployment and hence increased participation in government-related training programmes, only included in the wider workforce count. The converse argument explains the small difference in low unemployment areas of Grampian (0.5%) and the Shetland Islands (0.6%).

Turning attention to quarterly movements, the majority of authorities saw decreases in unemployment totals in the three months to October 1990 but the extent of these falls is not uniform. The Borders saw the greatest proportional reduction with a quarterly change of -11.1%. Highland contrastingly, saw a 4.9% rise in the number unemployed between July and October. In the last issue of the Commentary, Highland was the local authority area displaying the most substantial decrease in quarterly unemployment. These apparent swings in the fortunes of this rural area are a reflection of the seasonal nature of employment with tourism and agriculture employing far fewer people in October compared with July. Orkney and the Western Isles were the only other authorities witnessing increases in the quarter following July with respective increases of 3.9% and 5.4% but in the former case, in absolute terms only 16 more people were unemployed.

Considerable variation is evident on examination of change in unemployment situation between September and October. Decreases in excess of the 1.1% Scottish average were recorded for Central (-1.8%), Strathclyde (-1.6%), Tayside (-1.4%) and Lothian (-1.3%). All the island authorities saw monthly rises in unemployment ranging from 3.0% in the Western Isles and 3.3% in Shetland to 8.7% in Orkney. Highland was the only other authority experiencing an increase in unemployment, with a rise of some 6.0%. As previously suggested this reflects the seasonality of rural employment.

The analysis of sub-Scottish data suggests that the long-term unemployment trend remains downwards albeit at a slower pace than seen in recent Commentaries. However, the rate, and sometimes direction, of change varies considerably throughout Scotland.

Male Unemployment

Information on the unemployment situation in the male labour market is presented in Table 3. As can be seen from the table, in the twelve months to October 1990, male unemployment in Scotland fell by 11,812 to stand at 143,527. This 7.6% drop has caused a further reduction in the male unemployment rate. The narrow measure stands at 12.1% compared with the 12.3% reported in the last Commentary. The corresponding figures for the wider based measure of unemployment are 10.0% against July's 10.1%. These moderate changes confirm the slowing down in the decline in unemployment. Decreasing male unemployment however, is evident in the quarterly and monthly changes. Between July and October, male unemployment fell by 1,574, a proportional change of -1.1%. The number of males out of work between September and October saw a decrease but only of 354 in absolute terms, or 0.2%.

Considering annual changes, all authorities experienced a decline in male unemployment with Grampian witnessing the most substantial change with 18.9% fewer males out of work this October compared with last. Borders and Shetland were the only other authorities experiencing decreases in excess of 10% with respective declines of 12.6% and 10.2%. At the other extreme, Dumfries and Galloway fared poorly with a decline of 0.6%, or 17 males. Lothian and Highland also had notably low declines of only 3.6% and 4.4%.

Despite a 7,248 drop in male unemployment in Strathclyde, it remains the local authority area with the highest (wide) unemployment rate with 13% of the male workforce out of employment. However, the Western Isles is not far behind with a rate of 12.6% and employment in excess of the 10.0% Scottish average was recorded in Central (10.6%) and Fife (10.3%). Contrastingly, notably low rates are evident in Shetland (3.0%), Grampian (3.7%), Borders (4.3%) and Orkney Island (5.0%). A similar pattern exists for the narrow-based calculations of unemployment rate except that the Western Isles has replaced Strathclyde as the region with the highest male unemployment rate with some 18.5% of its males out of work.

During the quarter to October 1990, decreases in male unemployment were evident in just over half the authorities ranging from a 6.6% fall in the Borders and 5.0% in Shetland to a 1% decrease in Dumfries and Galloway and a negligible 0.9% in Fife. Of the five authorities experiencing increases in male unemployment in the three months since July, in Grampian and Lothian the rise was only 0.3%. In Highland and Orkney however the rises were 5.8% and 5.9% and in the Western Isles the increase was 8.4%.

Considerable disparity is also evident on analysis of the monthly changes in male unemployment. Most of the changes are within 1% of September's figures. However, Shetland (+2.7%), the Western Isles (+4.4%), Highland (+4.6%) and Orkney (+8.3%) all experienced not insubstantial increases in the numbers seeking work.

Female Unemployment

Table 4 contains information on the female unemployment position. Over the past twelve months, unemployment in Scotland fell by 9,357 to stand at 49,429. This represents 4.6% of the total female workforce or 4.9% of the narrowly defined labour force which is well below the overall Scottish unemployment rate of 7.7%. The quarterly and monthly changes in the female unemployment situation were above the Scottish average with declines of 12.3% and 3.5%.

In the year to October 1990, excluding the Western Isles, there were decreases in the number of females out of work in all areas. Shetland saw the biggest fall with 25.3% fewer of its female workforce unemployed in October of this year compared with last, but the Borders and Grampian both seeing declines of 25.0% are only a little behind. At the other end of the spectrum, Central witnessed the smallest proportional decline with a 10.8% annual change. Dumfries and Galloway also performed comparatively poorly with a 12.1% decrease. In the Western Isles, 11 more females were out of work this October compared with the same period last year which is a 3.3% increase.

There is considerable variation in the quarterly changes in female unemployment. Borders saw a 21.0% decline in totals but falls in excess of the 12.3% Scottish female average were noted for Central (15.7%), Grampian (14.9%), Tayside (13.7%) and Strathclyde (13.4%). In the Orkney Islands, 135 females were out of work in both July and October resulting in no quarterly change. Highland was the only authority recording an increase with a 2.6% rise in female unemployment.

Between September and October, three authorities saw female unemployment increases ranging from 4.5% in Shetland to 9.8% and 9.9% respectively in Orkney and Highland. The biggest decrease were seen in Central and Lothian where monthly changes of -5.8% were recorded. However, declines of 4.8% and 4.2% were seen in Dumfries and Galloway and Tayside.

The differential between the wide and narrow unemployment rate is much less for female unemployment than was the case for males reflecting the higher levels of self employment and HM Forces amongst the latter group. Considering the wide rate, unemployment is lowest in Shetland and the Borers where only 2.3% of the

Table 4: Female Unemployment by Region

	% rate Oct 90 Narrow	% rate Oct 90 Wide	Total Oct 90	Total Oct 89	Total Annual Change	% Change in Annual Totals	Total Jul 90	Total Quarterly Change	% Change in Quarterly Totals	Total Sep 90	Total Monthly Change	% Change in Monthly Totals
Borders	2.5	2.3	482	643	-161	-25.0	610	-128	-21.0	488	-6	-1.2
Central	6.1	5.7	2,978	3,340	-362	-10.8	3,531	-553	-15.7	3,163	-185	-5.8
Dumfries & Galloway	5.1	4.6	1,329	1,512	-183	-12.1	1,437	-108	-7.5	1,396	-67	-4.8
Fife	5.6	5.2	3,297	4,067	-770	-18.9	3,676	-379	-10.3	3,344	-47	-1.4
Grampian	2.6	2.5	2,737	3,650	-913	-25.0	3,218	-481	-14.9	2,798	-61	-2.2
Highland	5.1	4.6	1,947	2,289	-342	-14.9	1,898	+49	+2.6	1,771	+176	+9.9
Lothian	3.5	3.3	6,186	7,273	-1,087	-14.9	6,854	-668	-9.7	6,564	-378	-5.8
Strathclyde	5.9	5.5	26,044	30,783	-4,739	-15.4	30,060	-4,016	-13.4	27,091	-1,047	-3.9
Tayside	4.8	4.5	3,833	4,566	-733	-16.1	4,439	-606	-13.7	3,999	-166	-4.2
Orkney Is.	4.0	3.4	135	174	-39	-22.4	135	0	-	123	+12	+9.8
Shetland Is.	2.5	2.3	115	154	-39	-25.3	124	-9	-7.3	110	+5	+4.5
Western Is.	7.1	6.4	346	335	+11	+3.3	356	-10	-2.8	350	-4	-1.1
Scotland	4.9	4.6	49,429	58,786	-9,357	-15.9	56,338	-6,909	-12.3	51,197	-1,768	-3.5

Source: Department of Employment

Table 5: Registered Vacancies by Region

	Oct 1990 Exc. C.O.s*	Oct 1990 Total	July 1990 Exc. C.Os*	July 1990 Total	Quarterly Change % Exc. C.Os*	Quarterly Change % Total	Total Oct 89	Annual Change %
Borders	462	485	577	602	-19.9	-19.4	559	-13.2
Central	1,336	1,341	1,090	1,097	+22.6	+22.2	1,402	-4.4
Dumfries & Galloway	630	642	775	790	-18.7	-18.7	585	+9.7
Fife	1,083	1,111	1,138	1,165	-4.8	-4.6	1,091	+1.8
Grampian	3,230	3,399	3,626	3,852	-10.9	-11.8	3,554	-4.4
Highland	1,130	1,155	1,394	1,434	-18.9	-19.5	1,302	-11.3
Lothian	3,105	3,488	3,299	3,804	-5.9	-8.3	3,892	-10.4
Strathclyde	11,237	11,418	9,715	9,956	+15.7	+14.7	11,639	-1.9
Tayside	1,563	1,601	1,328	1,382	+17.7	+15.8	1,778	-10.0
Orkney Is.	80	98	100	114	-20.0	-14.0	70	+40.0
Shetland Is.	66	73	99	120	-33.3	-39.2	75	-2.7
Western Is.	125	125	110	110	+13.6	+13.6	70	+78.6
Scotland	24,047	24,936	23,251	24,426	+3.4	+2.1	26,017	-4.2

* Excluding vacancies notified to Careers Offices

Source: Department of Employment

female workforce is unemployed. Grampian is only a little behind with a rate of 2.5%. Western Isles has the highest rate of 6.4% but Central (5.7%) and Strathclyde (5.5%) also have relatively high female unemployment levels.

It is important to remember that the analysis is confined to recorded or notified unemployment. It is quite likely that there are many females who are not counted as unemployed but who would enter the labour market should a job be a available.

Vacancy Levels

Table 5 indicates registered vacancies by local authority area. The data relates to unfilled vacancies notified to Job Centres and Careers Offices. The former mainly deals with openings for the over 18s whilst Careers Offices handle opportunities for young persons under 18 years of age. Since the latter group are now excluded from registering as unemployed following the extension of a guarantee of a place on a training programme, we continue to calculate a separate vacancy count which excludes vacancies notified to Careers Offices since this allows the generation of a more meaningful unemployment/vacancy ratio.

Vacancies are usually notified to either Job Centres or Careers Offices but may occasionally be notified to both services or to more than one Job Centre and thus may be included in more than one vacancy count. Consequently, there is likely to be some incidence of measurement error. Nationally, only about one-third of vacancies are notified to Job Centres and Careers Offices and these tend to be for lower paid and lower skilled jobs. Hence from published vacancy data, a complete picture of the current demand for labour cannot be formulated.

In October of this year in Scotland, there were 24,936 notified vacancies of which 889 (3.6%) were openings for young persons under 18. This was a 4.2% decline on the October 1989 vacancy level but in the three months since July, vacancy levels have increased by 2.1% in total and 2.4% when Careers Office vacancies are excluded.

No clear trend is evident on analysis of annual changes in vacancy levels amongst Scottish local authorities. The disparity is most apparent amongst the island areas. Shetland experienced a 2.7% decline in total openings whilst Orkney saw a 40.0% increase and the Western Isles a 78.6% rise. This is partly a reflection of the small absolute numbers involved in these authorities. The Western Isles change was the result of an increase of only 55 vacancies. Eight authorities saw declines in vacancy levels ranging from 1.9% in Strathclyde to 13.2% in the Borders.

Comparing vacancy levels in July 1990 with those of October 1990, Central experienced the biggest increase with a 22.2% rise or 22.6% if Careers Office openings are discounted. Strathclyde, Tayside and the Western Isles saw rises in opening of 14.7%, 15.8% and 13.6% respectively. Shetland saw the most substantial decreases in vacancies with 39.2% fewer available jobs. Highland (19.5%), Borders (19.4%) and Dumfries and Galloway (18.7%) also experienced substantial decreases in vacancy levels.

By relating the level of vacancies to the level of unemployment, a broad indication of the number of registered unemployed people competing for each vacancy can be gleaned. However, since registered vacancies represent only a proportion of the total number of unfilled vacancies, the real unemployment/vacancy ratio will be lower than indicated in Table 6. This effect will be partly offset by the fact that not only registered unemployed people are likely to be competing for the vacancies. Cautious interpretation of U/V ratios is consequently required.

In October 1990, the Scottish U/V ratio excluding vacancies notified to Careers Offices was 8.02 and including the latter component 7.74. This is an improvement on the position both last year and last quarter. Within Scotland, the ratio is lowest in Grampian where there are 2.72 unemployed people per vacancy notified to Job Centres. However, last quarter, the corresponding figure was 2.55. The ratio is also low in the Borders (3.77), Shetland (5.23) and Orkney (5.29). The U/V level is highest in the Western Isles (11.31) but Fife (10.92) and Strathclyde (9.67) also fare poorly. Little coherent pattern in movements in ratios is apparent reflecting both the non-systematic changes in unemployment and fluctuations in vacancy levels.

Table 6: Unemployment/Vacancy (U/V) Ratios by Region

	Oct 1990 Exc. C.O.s*	Oct 1990 Total	July 1990 Exc. C.O.s*	July 1990 Total	Oct 1989 Total
Borders	3.77	3.60	3.40	3.26	3.73
Central	7.55	7.52	9.86	9.79	7.73
Dumfries & Galloway	6.59	6.47	5.53	5.43	7.44
Fife	10.92	10.65	10.80	10.55	12.14
Grampian	2.72	2.58	2.55	2.40	3.12
Highland	6.25	6.11	4.83	4.69	5.86
Lothian	8.07	7.18	7.78	6.75	6.90
Strathclyde	9.67	9.52	11.75	11.47	10.37
Tayside	8.54	8.34	10.72	10.30	8.41
Orkney Is.	5.29	4.32	4.07	3.57	7.04
Shetland Is.	5.23	4.73	3.70	3.05	5.47
Western Is.	11.31	11.31	12.19	12.19	20.84
Scotland	8.02	7.74	8.66	8.25	8.23

* Vacancies notified to Careers Offices

Source: Department of Employment

Intra-Regional Variations

It is clear from the foregoing analysis that there are significant variations in the fortunes of regional labour markets located throughout Scotland. However, within these local authority boundaries, disparities also occur. This section is intended to consider such intra-regional variations in unemployment. The data used to this end relates to travel-to-work areas (TTWAs). A TTWA is the smallest unit for which unemployment rates are calculated and it is an approximation to a self-contained labour market where most commuting to and from work occurs within the TTWA boundary. In mainland Scotland, there are 57 TTWAs. Each island area is classed as a TTWA and hence disparities which occur within Orkney, Shetland and the Western Isles cannot be drawn from TTWA statistics. They are thus excluded from the following two tables.

Table 7 indicates the number of TTWAs contained in each region and the number of these with unemployment rates in excess of the Scottish and regional averages. If the majority of a region's TTWAs have unemployment rates above the Scottish average then this is an indication of a general high unemployment area such as Strathclyde, Fife or Central. The converse also holds with the Borders and Grampian serving well to illustrate such an instance. In the former area, none of the region's five TTWAs have unemployment rates in excess of the average for Scotland.

Table 7: TTWAs with Unemployment Rates above the Scottish and Regional Average, October 1990

	No. of TTWAs	No. above Scottish Average+	No. above Regional Average+
Borders	5	0 (0)	3 (3)
Central	3	2 (2)	2 (2)
Dumfries & Galloway	7	3 (3)	3 (3)
Fife	3	2 (2)	2 (1)
Grampian	9	1 (1)	7 (7)
Highland	8	3 (3)	5 (4)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	8 (7)	5 (6)
Tayside	7	2 (2)	2 (2)
Scotland	57	22 (21)	30 (29)

\+ Figures in brackets refer to the situation last quarter (July 1990).

Source: Department of Employment

Comparing the unemployment rates in TTWAs with the regional average is useful in identifying sub-regional areas with significantly above or below average unemployment. If the majority of a region's TTWAs have rates in excess of the regional average then this indicates the presence of a few areas, possibly even one, with below average unemployment. Grampian is again useful for illustrating such a case with seven of its nine TTWAs having rates in excess of the 3.2% regional average. It is the large, low-rate TTWA of Aberdeen which is pulling down the Grampian figure.

Further indicators of the intra-regional distribution of unemployment can be gleaned from comparisons of the highest and lowest TTWA unemployment rate found in each region as indicated in Table 8. The range of rates witnessed in each region and the ratio of highest to lowest rate has been calculated.

Dumfries and Galloway continues to be the region exhibiting the biggest range in rates with the unemployment rate in Cumnock and Sanquhar some 10.7% higher than in Lockerbie. The differential is lowest in the Borders where the rate in Peebles is 2.5% higher than that in Galashiels and Kelso and Jedburgh.

The ratio of high to low unemployment rates is again greatest in Dumfries and Galloway with unemployment in the high TTWA some 3.55 times greater than in the low TTWA. The ratio is also high in Grampian (3.04) and Strathclyde (2.86). The ratio is lowest in Central at 1.69.

As the data shows, there is considerable disparity in unemployment situation not only between authorities but also within them.

Scottish Chambers' Business Survey

This new section of Regional Review is intended to consider some of the implications for employment throughout Scotland, of the findings of the latest Scottish Chambers' Business Survey (November 1990). The survey data is collected for various industrial sectors across a number of geographic areas. These do not correspond to the local authority regions previously considered but rather to Chambers of Commerce areas. Central and Fife have only recently been included in the SCBS and thus the coverage of these places is still comparatively sparse. Similarly, financial institutions and the tourism and leisure industry are new additions to the survey and as a consequence, the number of respondents in these sectors is relatively few. Clearly, the larger the sample size, the more reliable the survey results. However, the SCBS is concerned with the direction of change experienced (and expected) by

Table 8 TTWAs with highest and lowest unemployment rates, October 1990

		Unemployment Rates+		High - Low+		High/Low+	
Borders	H Peebles	5.4	(5.7)	2.5	(2.4)	1.86	(1.73)
	L Galashiels/Kelso	2.9	(3.3)				
Central	H Alloa	10.8	(11.6)	4.4	(5.0)	1.69	(1.76)
	L Stirling	6.4	(6.6)				
Dumfries & G/way	H Cumnock & Sanquhar	14.9	(15.2)	10.7	(10.7)	3.55	(3.38)
	L Lockerbie	4.2	(4.5)				
Fife	H Kirkcaldy	8.9	(9.4)	4.3	(4.7)	1.93	(2.00)
	L North East Fife	4.6	(4.7)				
Grampian	H Forres	7.9	(9.1)	5.3	(6.3)	3.04	(3.25)
	L Aberdeen	2.6	(2.8)				
Highland	H Invergordon/Dingwall	10.8	(10.7)	5.8	(5.6)	2.16	(2.10)
	L Badenoch	5.0	(5.1)				
Lothian	H Bathgate	8.7	(8.9)	3.9	(4.2)	1.81	(1.89)
	L Haddington	4.8	(4.7)				
Strathclyde	H Greenock	12.3	(12.9)	8.0	(9.2)	2.86	(3.49)
	L Oban	4.3	(3.7)				
Tayside	H Arbroath	8.4	(9.1)	4.5	(4.7)	2.15	(2.07)
	L Crieff	3.9	(4.4)				

+ Figures in bracket refer to the situation last quarter (July 1990)

Source: Department of Employment.

firms, rather than quantification of the magnitude of such change and thus the sample size is less problematic.

In the sections which follow, for the areas and industries covered by the survey, information is presented on the percentage of respondents who during the last three months have: increased their salaries; increased training; recruited staff; and experienced increased recruitment difficulties. The scale of these increase is not assessed. Concern is only with whether they have taken place or not. Respondents are also asked whether they expect to increase various relevant categories of employment. Those replying negatively to the questions are subtracted from those replying positively, with those selecting "no change" are excluded. The resultant figure is known as the balance of respondents and is expressed as a percentage of the total number of respondents in the particular category under review.

All Chambers

There have been increases in salaries across all sectors. In retailing and wholesaling and in financial institutions, just under one third of respondents saw their wage bills rise during the quarter covered by the survey and in construction, over half those surveyed increased salaries. Tourism and leisure was the industry with the largest number of firms reporting increased training activity (46%) but financial institutions are only a little way behind (40%). Only 20% of construction respondents are undertaking more training now compared with last quarter. Excluding financial institutions, in all sectors the majority of companies have been recruiting with 79% in the tourism and leisure industry noting increased personnel. However, this is the sector with the largest number reporting recruitment difficulties (29%). Overall, however, recruitment does not seem to be presenting too much of a problem.

Turning attention to the employment activity firms are expecting to undertake during the next three months, no clear picture emerges. In retailing, a minimal balance of respondents (+5%) expect to increase part-time employment. In all other job descriptions, the trend would appear to be reversed. A balance of 43% of retailers surveyed expected to decrease female employment in the immediate future. For the other categories, the balances are minimal which is particularly surprising for the temporary group since with Christmas falling into this quarter, most retailers would normally anticipate taking on "Christmas workers". A balance of wholesalers are expecting to recruit fewer temporary employees but modest positive balances were recorded for the other employment categories. The financial institutions are the only industry expecting to increase temporary workers but an average of 27% of the respondents in this sector think they will use fewer agency staff. Except for a minimal positive balance in the female workers category, construction companies anticipate a contraction in personnel. In manufacturing, a 1% balance of those surveyed expected increases in male, female and full-time employment. For the other categories, negative balances were recorded. In tourism and leisure, the employment trend is one of decline which is not surprising given the seasonality characteristic to the industry.

Overall, the picture of expected employment trends cannot be categorically described as "gloomy" but with so many negative balances recorded, it is certainly not optimistic.

<u>Aberdeen</u>

With respect to salaries, training and recruitment issues, the Aberdeen data broadly mirrors the results averaged out from all the respondents just described. The notable exception to this is in construction where 74% of firms increased salaries. 82% of companies have recently undertaken recruitment with 29% of firms facing difficulties in doing. Construction activity in Grampian region is heavily influenced by oil-related activity and it is not surprising to see atypical results for this sector.

Considering expected employment trends in the area, no significant balances are evident. In wholesaling, 17% of respondents anticipate employing fewer temporary staff but positive balance of 15%, 10% and 6% were recorded respectively for male staff, full-time employees and female personnel. Amongst the financial institutions surveyed a net 15% expect to increase the number of part-time employees and female workers. Amongst the financial institutions surveyed a net 15% expect to increase the number of part-time workers employed but this is at the expense of all other job categories with a net 15% anticipating fewer full-time employees. The construction companies in Aberdeen are planning to sub-contract more of their work and intend to take on more male workers in the coming three months. A balance of 26% of manufacturing firms anticipate less self-employed activity, and overall, decreases in part-time (-2%), temporary (-12%) and sub-contracted (-10%) staff are also expected. Although in the tourism and leisure industry, a balance of 5% of respondents expect to employ fewer full-time staff, in all other categories on balance either no change is anticipated or increases are intended.

<u>Central</u>

Sample coverage in the Central area is still relatively low but the results indicate that the area approximates the Scottish norm with respect to employment issues. Across all industries, some companies are increasing salaries ranging from 17% of firms in retailing to 50% in the tourism and leisure sector. Only in construction is no increased training being undertaken but this is based on only 5 survey returns. Despite the fact that the majority of companies have been recruiting recently, except in construction, the majority of firms have not faced increasing recruitment difficulties.

In the retailing trade in the Central area increased part-time and temporary work participation is expected but a balance of 77% of firms expect a reduction in their female workforces. Wholesalers are on average, intending to increase both full-time and part-time workers with only the number of temporary employees expected to reduce. In both financial institutions and construction companies, decreases in numbers employed are anticipated for all categories of employees. In manufacturing, increases are intended amongst a balance of firms except in the number of sub-contracted and self-employed staff. For the tourism and leisure industry, only the numbers employed on a part-time basis are expected to increase. The balance of respondents anticipate declines for the other employee types.

Dundee

No financial institutions are covered in this area and the number of respondents in the wholesale distribution and tourism and leisure sectors is comparatively low. The percentage of companies increasing salaries in Dundee is higher than average for Scotland with 50% of retailers and construction companies having to raise wages. Training and recruitment activity are also above normal.

Retailers in this area, uncharacteristically expect an increase in full-time and temporary workers. In the wholesale distribution industry, a balance of 40% of employers expect a reduction in full-time workers but 25% anticipate increases in their temporary workforce. Declines in all types of employees are expected in construction and tourism and leisure but in manufacturing, reductions are confined to full-time and temporary workers.

Edinburgh

In Edinburgh, 71% of construction companies increased salaries in the quarter preceding November which is above average. Across all industries, increased training is reported and in all sectors, the majority of companies have recruited recently, particularly amongst wholesalers with 87% increasing their personnel. Despite this unusually high level of recruitment, the survey data suggests that finding new employees has not been too problematic with most difficulties experienced by tourism and leisure companies.

In the retail distribution industry, net increases are expected for female and part-time staff but in wholesaling, except for male employees where no change is anticipated, expansion is intended for all types of workers. The financial institutions also expect rises in their female, part-time workforce but a substantial number (50%) consider reductions in temporary and agency staff a likelihood. In manufacturing firms a modest net balance of respondents expect to take on more male, full-time staff but contractions in all other employee types are anticipated. Construction and tourism and leisure business intend to reduce all staff types particularly in the latter industry and noticeably in both sectors for temporary workers.

Fife

Due to insufficient data, the financial institutions are excluded from the analysis. No wholesalers or tourism and leisure companies have increased salaries during the past three months and the number facing rising wages is low amongst retailers and manufacturers. Conversely however, 63% of construction industries saw their employees rates of pay rise. Training activity in this sector is below normal and with no wholesaling companies reporting increased training this is a little concerning. More than half the respondents in all sectors have been recruiting over the last quarter and except in wholesaling, abnormal difficulties have not been experienced in the process.

Reductions in all types of employment are expected by Fife retailers but wholesale distributors anticipate declines only in temporary employees and expect an expansion in their male workforce and their full-time employees. Construction companies anticipate decreases in staff except for the self employed category and falls in personnel are expected throughout manufacturing. The majority of tourism and leisure businesses intend decreases in both male and female workers concentrated on the full-time side. An increase in sub-contraction is however intended.

Glasgow

The proportion of companies reporting salary rises is average in Glasgow, and is highest amongst construction respondents (51%). However, this is the sector recording least increased training (20%) with tourism and leisure reporting the most (47%). Recruitment levels are also highest in this latter sector at 80%.

53% of retailers anticipate declines in female employees and the only increase is expected in part-time employment. In the wholesaling sector, the balance of response is insubstantial in all categories of employment except temporary workers where a net 15% of firms anticipate reductions. The financial institutions intend only increases amongst part-time workers and 36% expect reduction in agency staff employed. Ignoring a negligible 3% balance against female staff, construction firms anticipate falls in all categories of employees. The picture is also gloomy in the tourism and leisure sector with negative balances of 47% and 42% reported for temporary and self-employed staff.