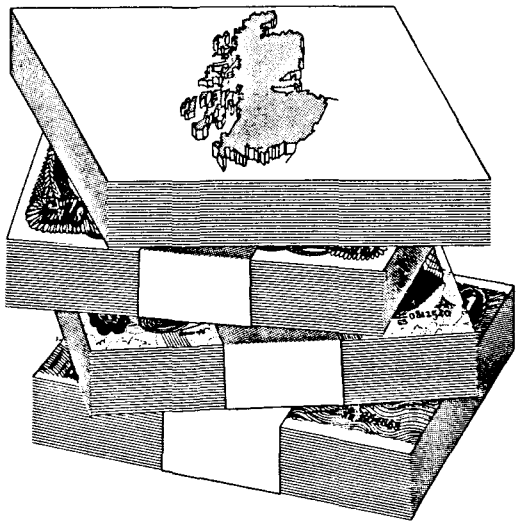
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

Taken together the Scottish Chambers' Business Survey (SCBS) and the CBI's Industrial Trends Survey provide a reasonable guide to current and recent trends in the Scottish economy. Both are conducted quarterly with results being derived from the responses of Chambers of Commerce and CBI members, respectively. While the two sources are complementary in nature, there do exist important differences between them. Whilst the SCBS provides a geographical breakdown of responses, the CBI Survey provides information on trends by size of firm. Also, the CBI Survey provides information on sectoral employment patterns, whilst the SCBS distinguishes between male and female employment and between full and part-time employment. Furthermore, the number of respondents to the SCBS is well over twice that to the CBI Survey and it covers not only Manufacturing but also Construction, Wholesale Distribution, Retail Distribution and Financial Institutions. The results from the SCBS are therefore open to a greater degree of disaggregation than those of the CBI Survey.

The SCBS was conducted between 9 April and 18 May 1990 and the results refer to the three months ending 30 April. The CBI Industrial Trends Survey was conducted between 30 March and 18 April. The Surveys took place against a backdrop of rising inflation and continuing high interest rates.

SCBS

Overall, the Survey reveals that the short-term prospects for the Scottish economy are a little brighter with firms in all of the main sectors being more confident now than in February.

A very slight improvement in manufacturing optimism was recorded for the three months to April 1990, with a balance of -2% compared to -3% in the February Survey. Aberdeen and Glasgow were the most pessimistic areas with balances of optimism of -23% and -12% respectively. Dundee and Edinburgh respondents were slightly more optimistic with balances of +26% and +1% respectively.

The trends in new orders and sales remained fairly buoyant among manufacturing respondents during the three months to April. With respect to new orders, orders from the rest of the UK was the least optimistic category, and is expected to remain depressed during the current quarter. The most buoyant area was once again export orders. With respect to sales, export sales represented the most positive trend. The trends in both orders and sales are expected to remain positive during the three months to July.

The most pessimistic manufacturing sectors were "other engineering" with a balance of optimism figure of -45%, "paper, printing and publishing" at -17% "textiles, leather, footwear and clothing" at -13% and "miscellaneous manufacturing" also at -13%. The electronics sector was also fairly pessimistic with a balance of optimism figure of -4%. The most optimistic sectors appear to be "metal manufacture and metal goods" and "mechanical engineering" with balances of +27% and +29% respectively.

The trends in total and female employment were low positive ones and the trend in male employment was flat. Respondents expect employment to rise during the three months to July. All areas are expecting the trends in employment to rise, with the exception of Aberdeen respondents.

Firms in the Survey are operating at three quarters capacity utilisation. The trend in the volume of work in progress had increased slightly since the previous Survey. Stocks of finished goods rose for a net of respondents, whereas stocks of raw materials declined.

Optimism among construction respondents to the SCBS improved marginally. The balance of optimism now stands at +2% compared to -3% in the previous quarter.

Orders from the private sector remained the most positive trend during the three months to April. Central government orders declined for a net of respondents whereas orders from other public sector sources rose slightly. It is only orders from the private sector that are expected to continue to rise during the current quarter. In Dundee however the trend in orders from all sectors is expected to be positive.

Total manual and non-manual employment in the construction sector all rose for a balance of +39% of respondents. Employment prospects for the current quarter are favourable in all areas except Dundee were a net of respondents expect non-manual employment to decline. For construction respondents, the factor most likely to limit output is a shortage of skilled labour. This factor was cited by 41% of firms compared to 29% in the February Survey. Orders or sales was the second most likely factor.

Optimism in the wholesale distribution sector returned to a positive balance with optimism up from -3% to +7%. All areas are relatively optimistic except Dundee. The volume of sales rose for a balance of +46% of respondents and is expected to continue to increase for a net of +58% of firms. Total employment also rose for a net of wholesaling respondents and is expected to continue to rise; this is true of part-time and full-time employment. The most pessimistic area appears to be Dundee, where total and full-time employment fell for a net of respondents and part-time employment remained, on balance, flat.

The balance of optimism figure for respondents to the retail distribution section of the SCBS returned to a positive figure of +2% compared to -18% in the previous Survey. Dundee and Glasgow were the most optimistic about the general trading situation with balances of +20% and +47% respectively. Aberdeen and Edinburgh were pessimistic with balances of optimism of -21% and -34% respectively.

The trend in the total volume of sales remained strongly positive and this trend is expected to continue during the three months to July. The trend in total employment however, declined, with a net of -25% of retail respondents reporting a decrease in total employment. The most depressed areas appear to be Dundee and Edinburgh. According to respondents, employment prospects are not favourable, with a net of -29% of firms expecting employment to decline during the current quarter.

Financial institutions responding to the SCBS indicated that the trend in personal advances declined during the three months to April with a balance of -20% of respondents reporting a decrease; this compares to a balance of +44% in the previous Survey. The trend in the level of corporate advances remained high and positive. The trend in the level of personal advances is expected to improve, whereas the trend in the level of corporate advances is expected to decline.

Demand for credit for buildings rose significantly from a net of +13% to +77% with the demand for credit for working capital declined slightly from a net of +88% to +73%. The balance in the demand for credit for plant and machinery was negative at -17%, down from +14% in the previous Survey.

Four sectors are identified as sources of demand for new advances: manufacturing; distributive trades; other services and construction. Once again, the strongest source of demand came from the manufacturing sector, closely followed by other services. Both the distributive trades and construction sectors showed a downturn in the demand for credit.

CBI Industrial Trends

For the fifth consecutive survey, business confidence declined. A balance of -5% reported that they were less optimistic about the general business situation than they were four months ago; this compares to -11% in the previous survey. Sharp declines in optimism were reported by "textiles" and "food, drink and tobacco" sectors, while "chemicals", "engineering" and "other manufacturing" seem to be slightly more optimistic than four months ago.

On balance, demand has risen slightly over the past four months with a net of +2% of respondents indicating an increase in the volume of new orders. Export orders rose while the volume of domestic orders continued to fall, total demand is expected to increase at a faster rate during the current four months. "Engineering", "textiles" and "food, drink and tobacco" experienced a decline in demand, however, "engineering" and "food, drink and tobacco" are expecting an improvement in demand. For the third consecutive survey, firms' total order books are below normal.

Despite expectations of some growth in manufacturing output in the January survey, none was recorded. The balance was zero; this compares with a balance of +14% recorded last April and +53% in April 1988. Output is however once again expected to grow during the current quarter. Small and medium sized firms are most affected by the decline in output with large firms reporting an increase. Declines in output were reported by "textiles", "engineering", metals and metal manufacture" and "food, drink and tobacco" sectors.

The main constraint on output was once again a shortage of orders of sales with 75% of respondents citing this factor. Plant capacity remained the second most important factor, being mentioned by 23% of firms; plant capacity is declining in significance. A shortage of skilled labour eased as a constraint to output over the next four months, being cited by 11% of respondents, down from 18% in the January survey. 11% of firms cite materials or components as a factor likely to limit output.

The survey found that the volume of stocks of finished goods continued to fall during the four months prior to the Survey, reflecting stable output and an increase in export demand. The level of stocks of raw materials fell by more than was expected in January. A further decline in stocks of raw materials and of work in progress is expected during the current four months.

Fixed capacity among respondents remained, on balance, more than adequate to meet expected demand over the next twelve months. The proportion of manufacturers reporting their present level of output to be below capacity declined marginally.

For the fifth Survey in succession, a net of manufacturers expect to authorise less capital expenditure on plant and machinery over the next twelve months than in the preceding year. All industrial groups and all sectors with the exception of "chemicals" and "engineering" expect investment in plant and machinery to decline. Investment intentions in buildings remained negative for the eighth consecutive survey.

The most cited reason for authorisation of capital expenditure was once again increasing efficiency with 70% of firms mentioning this. 29% of firms cited the expansion of capacity and replacement by 41% of companies. The factor most likely to limit the authorisation of capital expenditure remains an inadequate return on investment. Uncertainty about demand was cited by 35% of respondents. The third most cited factor was a shortage of internal finance. The cost of external finance rose in significance as a constraint on planned investment being cited by 17% of companies, compared with January's 11%.

Manufacturing employment declined for a balance of -19% of firms compared to a balance of +2% in January. The only sector indicating a rise in employment was the chemicals sector. The decline in manufacturing employment is expected to continue at a similar rate.

The rate of growth in average costs per unit of output slowed over the last four months. Moderate cost increases were reported by "chemicals", "textiles", "engineering" and "food, drink and tobacco", while a slight pick up in the rate of cost growth was indicated by "other manufacturing" and "metals and metal manufacture". Manufacturers' output prices rose at a faster rate than in January, though continue to be outpaced by unit costs.

Export prospects remain favourable for respondents to the Industrial Trends Survey. All sectors report an increase in confidence, with the exception of "textiles" and "food, drink and tobacco". Export orders continued to grow over the past four months, albeit at a slower rate than reported in the January Survey. "Food, drink and tobacco" and "metals and metal manufacture" indicated a fall in new export orders. During the current quarter, a balance of +4% of manufacturers expect the level of new export orders to grow. Export order books have deteriorated, with respondents reporting export order books to be below normal.

The rate of increase in the average prices at which export orders are booked improved over the period since the January survey. The balance of +32% indicating increases in export prices was the highest recorded for a year. Respondent, on balance, expect export prices to continue rising over the current four months. Prices remained the factor most likely to limit the ability to obtain export orders. Political or economic factors abroad remained the second most cited reason. The other important factor was delivery dates.

Conclusions

It would seem that CBI respondents are slightly more pessimistic than Chamber of Commerce members about the general trading situation. Both Surveys saw export prospects continue to improve, with export orders rising. From both Surveys, employment prospects in Manufacturing seem less buoyant. During the current quarter, the Surveys expect output to grow.

Primary

AGRICULTURE AND FORESTRY

Beef farmers throughout the UK face a very difficult future, as a result of the incidence and publicity given to bovine spongiform encephalopathy (BSE). UK demand for beef has fallen sharply, and international markets have rapidly shrunk. France, Britain's largest export market for beef, imposed a total ban on British beef in May as a guard against BSE. The ban included a block on live cattle imports as well as processed meat.

Not surprisingly, the ban aroused considerable controversy, with many representatives of the industry and official views claiming that the real motive was one of trade protectionism. France, though, is not alone in its behaviour. Austria, West Germany and the Soviet Union also impose total or partial bans on imports of British beef, and around 30 countries now restrict imports of live British cattle.

A serious problem of information is evident in this situation, as not only are the consequences of BSE for human health poorly understood, but the prevalence and distribution of the disease in British cattle populations is also largely unknown at the moment. The problem facing British producers is that the onus of proof is being put on them to prove the absence of the disease in that part of the stock destined for sale. This is clearly a very difficult objective to attain.

With sales, and therefore prices, falling, the European Community (EC) may well be required to purchase British beef, under the terms of intervention regulations. Such intervention buying looks likely, but will not prevent substantial cuts in real beef-farm income in the short term future.

Meanwhile, the Scotch Quality Beef and Lamb Association is to spend nearly £1 million on a campaign to encourage consumption of beef and lamb. France is a particular target for this campaign, with the other targets being the Scottish home market, the rest of the UK, the catering market and exports. Despite Scotland's large lamb producing industry, comparatively little lamb is purchased by Scottish consumers. The campaign is being supported and partially funded by the SDA and the Highlands and Islands Development Board. New lamb products are to be introduced, particularly high valued-added kitchen products such as "lamburgers".

Forestry shares the currently rather bleak fortunes of the other main sectors of Scottish primary industry. Forestry profitability has suffered for several years after tax changes were introduced, and the annual conference of the Scottish Landowners' Federation (SLF) in March was told that "a brilliant campaign" by the conservation lobby, and the Royal Society for the Protection of Birds in particular, has killed off new commercial planting in Scotland.

The conference heard that fiscal changes and conservationist pressure were not the only factors contributing to the demise of commercial forestry. High interest rates and lack of suitable blocks of land of sufficient size and quality for planting were also important.

Despite large scale sitka spruce new planting offering little prospect of reasonable returns at the moment, "non-commercial" forestry could generate acceptable returns, particularly when viewed in conjunction with other land uses. The conference heard, for example, that birch plantations for deer shelter could attract sufficiently high grants to ensure that this is an

attractive prospect.

The Green Party favours the extension of small scale forestry, as part of its campaign to recreate the Great Wood of Caledon. However, not surprisingly, its advocacy of the need for Scotland to establish a register of land ownership and use, as a basis for limiting the size of holdings and controlling institutional and foreign ownership, did not find much support at the SLP conference.

A study for the Forestry Commission into the workings of the new woodland grant scheme was published in March. The study, by Dr Sandy Mather of the Geography Department at Aberdeen University, investigated over 600 applications in Scotland for woodland grant scheme money in the first 18 months for which the scheme ran. Most applications were for small areas, with over 70% for less than 12.5 acres. Furthermore, the majority of applications were for lower ground planting.

The bulk of applications came from farmers and traditional estates, with more than one third for planting broad level species only. The study concludes that the scheme is operating satisfactorily. The Forestry Commission's latest figures show that approval has been given for 26,664 hectares of new planting, and argue that this illustrates that the scheme is "taking off better than its critics suggested at the outset". An interesting point of detail from Dr Mather's study is that sycamore appears to becoming the preferred broad-leaved species for planting in Scotland. Sycamores have the advantage of being relatively fast growing and easy to maintain, but the sycamore is a foreign species and does spread rapidly. The Nature Conservancy Council has raised doubts about the wisdom of planting sycamores in new woodland schemes.

FISHING

Statistics for fish landings into Scotland for the period January to March 1990 are given in Figure 1. The total catch value for the quarter was £48.9 million, one percent less than for the equivalent period 12 months previously. [All comparisons below use this basis; that is January to March 1990, as compared with January to March 1989.]

Demersal (white fish) landings fell by a substantial amount in terms of weight. However, an average price rise of 35% exactly offset the 26% weight fall. Within this category, haddock and cod both exhibited very large volume falls (down by 41% and 30% respectively). Not surprisingly, the consequence of this was sharp price rises of 45% for haddock and 29% for cod. Although the landings of whiting remained unchanged, prices rose sharply (by 41%) reflecting the general fall in availability of demersal fish.

Pelagic species (the main cases of which are mackerel and herring) were landed to a value of £7.9 million, up 45%, this being due predominantly to a 45% increase in the volume of mackerel landed.

There was a 38% drop in the value of shellfish landings, due to large falls of the amounts landed of almost all the main species. The value of Norway Lobsters dropped by 50% to £2.4 million, due to a 60% fall in the amount landed, and apart from Queen Scallops, there were falls in the value of landings of the other main shellfish species.

A glance down the column of average prices for individual species shows that for the large majority of species, average prices rose, often sharply over the year. The overall average price, however, fell slightly, due to a combination of falls in landings of some high value species and rises in landings of some lower value species. Because the overall price change statistic is a weighted average of fish species, the volume-composition of which changed substantially over the year, the overall index is very misleading as a picture of price changes for the industry as a whole.

A cause of some concern to the Scottish fishing industry this year is uncertainty surrounding the arrival trade of the Scottish pelagic fleet with Eastern Europe factory vessels. These vessels (primarily Russian and East German) purchase large quantities of herring and mackerel from the Scottish fleet, and generate much business in the main centres of Peterhead and Ullapool. Sixty Scottish crews are geared into this trade. The uncertainty arises from the fact that political and economic changes in the two customer nations are threatening to interfere with these established links. It is not yet clear what prices or volumes will be negotiated for the 1990 season. However, if a deal acceptable to Scottish fishermen is not struck, the prospect of a

proportion of the fleet in Scotland switching from pelagic into demersal fishing exists, at a time when the available quotas for demersal catches has already been severely reduced by EC policy.

The control and regulation of the fish farming industry was being debated at a conference in March, organised by Rural Forum and Scottish Wildlife and Countryside Link. Although the industry provides direct and indirect employment accounting for more than 6,300 jobs (according to HIDB estimates, putting it second, only to beef in importance in the Highland economy's primary sectors), Mr Bill Ritchie, of Highland Forum, claimed that many of the jobs were low grade and took people from traditional industries, creating uncertainties for them. Mr Ritchie argued that the secrecy and lack of accountability of the Crown Estate Commissioners (who allocate sea bed leases) worked against the interests of local communities. The conference also heard claims that environmental considerations were being given insufficient attention in the planning procedures for the industry. These claims come at a time when large Scandinavian supplies of farmed fish, described in a previous issue of the Commentary, are depressing prices and causing financial problems in the industry. A reflection of this has been the placing into receivership of one moderately large Skye fish farming company, McLennan Salmon Ltd.

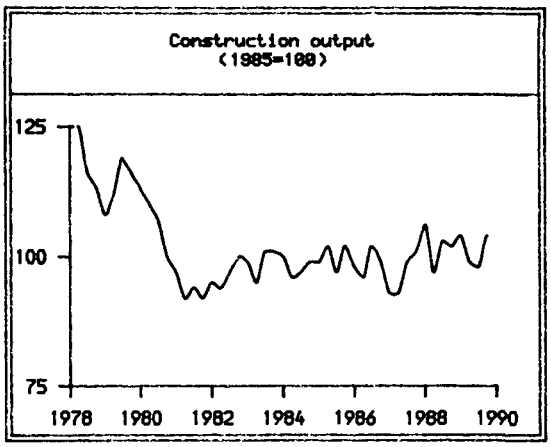
FIGURE 1: FISH LANDINGS IN SCOTLAND: JANUARY TO MARCH 1990 - COMPARED WITH JANUARY TO MARCH 1989

	Weight Tonnes	Value £'000	Price £/T	Weight %	Value %	Price %
Landings by UK vessels						
Demersal	29,915	35,748	1,195	74	100	135
Pelagic	65,313	7,920	121	138	145	105
Shellfish	3,890	5,205	1,338	68	62	92
Cod	5,227	6,797	1,300	70	90	129
Haddock	9,356	11,583	1,238	59	85	145
Whiting	6,840	5,985	875	100	141	141
Dover Sole	5	19	3,958	75	70	94
Hake	321	794	2,474	97	140	144
Lemon Sole	296	637	2,152	119	128	107
Megrims	310	714	2,303	78	131	169
Monks	1,633	3,823	2,341	89	111	124
Plaice	1,010	838	830	106	126	120
Saithe	1,991	1,254	630	83	107	129
Skate	860	689	801	97	123	127
Mackerel	62,089	7,531	121	145	152	105
Herring	2,963	364	123	64	72	112
Crabs	354	388	1,096	75	71	95
Lobsters	19	272	14,316	39	47	122
Scallops	596	1,064	1,785	88	83	95
Norway Lobsters	950	2,352	2,476	40	50	123
Queen Scallops	880	304	345	149	162	109
Total by UK vessels	99,118	48,872	493	106	99	93
Landings by foreign vessel	8,689	996	115	85	93	110
Total landings in Scotland	107,807	49,268	463	104	99	95

Source: Scottish Office, May 1990

Construction

The latest Scottish index of production and construction figures show that the index for the Scottish construction industry stood at 104.1 in the fourth quarter of 1989 giving an annual index for 1989 of 101.3. This is up 5.6% on the preceding quarter but down 0.6% for the year when compared with 1988 as a whole.



The corresponding UK figures are 123.4 for quarter 4 of 1989 and 123.5 for 1989 as a whole, being up 2.2% and 4.0% respectively on the previous period.

These figures seem to belie the relative position of Scotland when viewed against the UK as a whole. The Financial Times reports that "the recession" in the building industry has come earlier, will last longer and be deeper than previously expected, whilst the Scottish construction industry is elsewhere reported as continuing to enjoy boom times. The latest Scottish Building Employers' Federation (SBEF) survey shows that the first quarter of 1990 shows the third consecutive increase in business, with Scotland showing the highest level of growth in workload of any of the 11 economic regions reporting in their survey. Bob Campbell, the SBEF director, sees the emergence of some stability in growth in the short term. Mr Campbell feels that the greatest danger is that Scotland will become "infected with gloom and doom" and that the Scottish industry "will talk itself into recession".

Indeed, our own Scottish Chambers Business Survey (SCBS) shows that whilst 41% of respondent firms are as confident about the general business situation as they were three months ago a balance of +2% of the remainder are more optimistic. Of respondent firms, a balance of +18% and +23% are showing increases in the actual and expected trend in new private orders over the last and next quarter respectively. The actual and expected quarterly trend in total employment is up for 39% and 38% respectively of firms reporting.

The SCBS shows that a balance of 52% of respondents are experiencing and expecting increases in the amount of work in progress. The broad similarity between the actual and expected trends in new order, employment and work in progress, concurs with SBEF director Bob Campbell's observation of some stability in growth rates for the Scottish construction industry. SCBS respondent firms report an 85% rate of capacity utilisation and shortages of skilled labour is cited as the main barrier to growth for 41% of reporting firms.

The Department of Environment's regional distribution of new orders received by contractors shows that total Scottish new orders on the whole have remained relatively stable compared with Great Britain during 1989. The value of new orders in Great Britain went from £6,994 million in the first quarter of 1989 to £6,198 million in the fourth quarter, a fall of 3%. There was also a fall in the level of Scottish new orders over 1989 however this was a tenth of the percentage fall experienced in Great Britain as a whole. In the first quarter of 1989 new orders were £603 million and in the fourth quarter of 1989 they had fallen to £596 million, a fall of 0.3%. Total new orders for Scotland and Great Britain in 1989 were £2.283 billion and £27.142 billion, respectively.

Private house building starts in Great Britain for 1989 were 163,400 which is 27% less than for 1988 but greater than the yearly average for the past 10 years. The picture in Scotland was different with 14,600 private starts which was an increase of 2.1% on 1988 which is the third consecutive year of increasing starts. The first quarter of 1990 shows new housing starts for Great Britain at 35,000 which is down 29.6% on the first quarter of 1989. Scotland on the other hand was unchanged over the same period at 3,500 new housing starts.

High interest rates are taking effect in Scotland and the North as well as the rest of the UK. Lewis Robertson the chairman of the Glasgow based property and construction group Lilley made this point at their annual meeting. He said that the company was adjusting its exposure to property development in light of the present harsh financial climate.

A planning application for the creation of an offshore platform yard at Burntisland has been submitted to Kirkcaldy District Council (KDC) by Trafalgar House. KDC's head of planning, David Rae, has said that the environmental costs will have to be considered along with the economic benefits before a decision is made. Should this development come to fruition it could mean hundreds of jobs, in an area still badly affected by shipbuilding job losses, and have additional spin offs in concrete production. However, a note of caution was sounded by Trafalgar House who say that the whole development is speculative at present and depends on the strength of demand from the oil industry.

All in all the immediate future for the construction sector is certainly good in direct contrast to the position in the South East of England.

Energy

OIL AND GAS

The Royal Bank/Radio Scotland oil index indicates that UK oil production in March averaged 2.02 mbpd, 5% higher than in February and 7% above March 1989. Most individual fields recorded increased output, but Brent production was only 173,000 bpd, some 100,000 barrels less than full capacity. Mr Bob Reid, the Chairman of Shell UK, has indicated that, because of extensive refurbishment and maintenance programmes, Brent would be operating at little more than half capacity for much of 1990.

A 5% decline in the dollar price of crude combined with a 4% depreciation of sterling against the dollar resulted in an average March sterling price of £11.46 per barrel, only 7p less than February. Estimated daily oil value was £23.1 million. Brent crude prices fell below $16pb in mid-April for the first time in over a year, but recovered to around $17pb within a week.

According to the Department of Energy's latest "brown Book", the value of orders for oil and gas work on the UKCS rose to a record £4 billion last year. British firms obtained 81% of the contracts by value. Energy minister Peter Morrison indicated that British offshore supply companies were also winning export orders worth an estimated £3 billion a year.

Reflecting the upturn in offshore activity, Training Agency figures indicate that employment in firms wholly and permanently involved in oil-related work in Scotland was 61,519 in December 1989. This was 1871 higher than in June 1989 and 5528 above December 1988.

The substantial majority (81%) of oil-related employment was "located" in Grampian, though this figure includes significant numbers of offshore workers. In contrast, only 3764 wholly oil-related jobs were in Central Scotland.

The broad industrial breakdown of Scottish oil-related employment is given in Table 1.

Table 1 North Sea Oil Employment by Industry

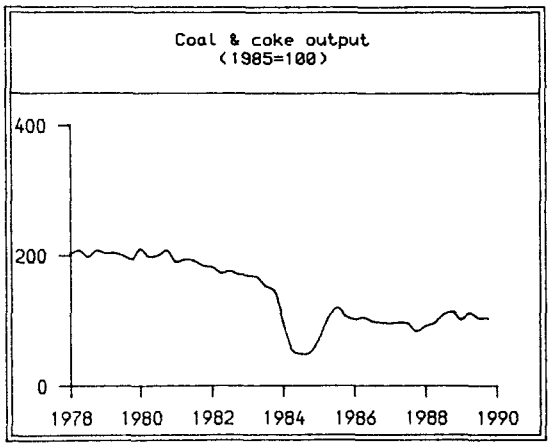
Industry	Dec '89	Diff from June '89
Agriculture, Forestry, Fishing	0	
Energy & Water	24424	+1091
Manufacturing	14060	+1536
Construction	10211	-797
Distribution, Hotels, Catering, Repairs	4825	+286
Transport & Communications	4158	-460
Business & Other Services	3841	+215
TOTALS	61519	+1871

Source: Training Agency

39.7% of total employment in December was in the "Energy and Water" sector, consisting primarily of workers involved in the extraction and production of oil and gas, including those on offshore rigs and platforms. The overall increase in employment between June and December was largely attributable to significant gains in the Energy/Water and Manufacturing sectors, partially offset by falls in the number of oil-related Construction and Transport jobs.

ELECTRICITY, COAL AND OTHER ENERGY

Electricity policy remains the main focus of interest in these industries. In the short term, privatisation and the attendant competition regulation are of paramount importance. However, the likelihood of future restrictions on fossil fuel emissions are beginning to be considered by the electricity supply industry. The Scottish coal and nuclear industries continue to be affected by public electricity policy.



The new regulatory regime for final sales to customers will be enforced by OFFER, the Office of Electricity Regulation. Following higher price rises in Scotland than south of the border in 1989/90, maximum average permitted price rises in Scotland for all but the largest customers will be 8.5% in the coming year. In England and Wales, the price rise allowed will be 9.0%. When compared with the increase in the Retail Price Index of 7.5%, this is not a particularly positive result. Fuel prices, especially coal prices have fallen and electricity prices have declined in the past ten years relative to the RPI. In the period to 1994, this decline will resume in Scotland, as the efficiency targets have been set relative to the RPI as below:

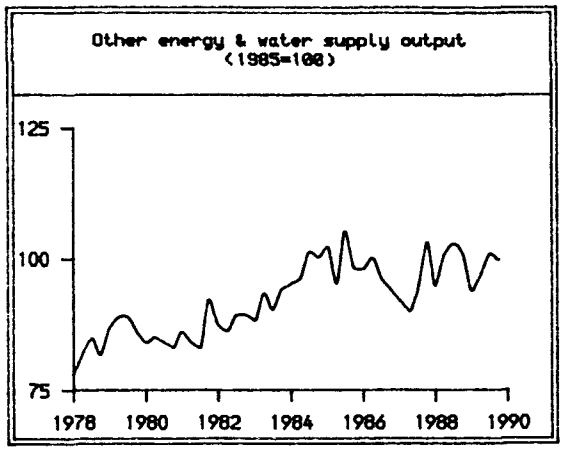
	Transmission	Distribution
Scottish Hydro-Electric	-0.5	-0.3%
Scottish Power	-1.0%	-0.5%
Range in England/Wales	0.0% to +2.5%	

These are average prices for all but customers taking over 10MW annually, for whom a competitive regime applies. Given that competitive pressures are likely to break into the market for medium-sized manufacturing and commercial electricity users over the next few years, prices to consumers are unlikely to decline much relative to other prices. The Scottish suppliers have tougher efficiency targets than elsewhere due to their investment programme in the distribution network, which started in 1982.

At present, competition is specified for customers taking at least 10MW a year. This is subject to the proviso in England and Wales that the two large generators there, National Power and PowerGen do not take over 15% of the supply from each of the distribution companies. This limit is likely to be relaxed, thus increasing competition to supply large electricity users. The low prices this has encouraged have brought about a degree of concern about predatory pricing. Whether or not this is justified, competition to supply large users is likely to limit the reduction in the existing cross-subsidisation of large users by captive small ones. In the longer term, the final supply of electricity may be a low-margin operation, with much of the value-added remaining with the power generator.

Since Scotland has a large generating capacity surplus, which would become larger should Ravenscraig steelworks close without replacement, conditions in the market south of the border are critical for the two electricity supply companies. Since their reconstitution as government-owned public limited companies, 'exports' southward have increased to the point where the Scotland-England interconnector's capacity is currently fully committed. Expansion of sales in England must therefore be via swaps until the interconnector is upgraded or the Scottish firms generate in England. A further barrier to 'exports' could be the capacity of the distribution grid within England and Wales. This follows the 'Seven-year statement 1990-91 to 1996-97' produced by Gridco,

the company to be owned by the twelve distribution companies for England and Wales. Gridco is the customer for Scottish sales of bulk electricity. The report also highlighted generating capacity in South and East England as a constraint but stated that demand growth for publicly supplied electricity in England and Wales, estimated at 0.7% pa, would be insufficient to absorb the 1600MW of planned additional generating capacity. Analysis by stockbrokers James Capel considers that the total growth in electricity demand is around 1.4%, which is also low compared with previous estimates.



Scottish generators have been involved in the provision of new capacity in England in the shortage areas identified by Gridco. Hydro-Electric are involved in consortia planning stations in London and the English North-East. Their experience of operating gas-turbine generators is not available in England. In addition, Hydro-Electric are building a 230MW turbine in Peterhead. Access to the English market has additionally been achieved by Hydro-Electric through direct sales to BOC, gaining a national supply or 'roll-up' contract. This guarantees power at a contract price. When the contract is brought into play, in other words when BOC cannot obtain cheaper power via a spot-market deal, Hydro-Electric can swap power in order to supply BOC. This allows Hydro-Electric to improve the utilisation of their low cost stations without pricing down to marginal cost.

The 1992 process of completing the European market may now include rules on price information to electricity users, providing firms with information about prices obtained in other countries and the existence of hitherto hidden cross-subsidies. A cross-border market in electricity is also possible, creating the possibility of large savings for major electricity users.

Government policy on 'greenhouse' gasses now calls for a standstill in carbon dioxide production by 2005, though this is considerably less than the action being taken by most other developed countries. The cut of one third in the power station flue-gas desulphurisation programme has been confirmed, with imported low sulphur coal replacing British production, leading to the potential for further job losses in the industry. The most cost-effective way of reducing emissions is through the efficient use of energy in a given operation or the replacement of that operation by a more energy-efficient one. The first, such as higher energy-efficiency standards for new homes, will decrease demand for electricity, while the latter, such as replacing car journeys by ones by electric train, may increase it. The production of carbon dioxide is an inevitable outcome of power generation using fossil fuels. Solutions can be the replacement of fossil fuel stations by nuclear power or renewable energy sources such as wind and wave power. Alternatively, fossil fuels can be converted into electricity by more efficient processes. Either route requires capital expenditure. The likely mechanism for achieving the required emission level is through tradeable 'pollution licences', the number of which could be reduced year by year.

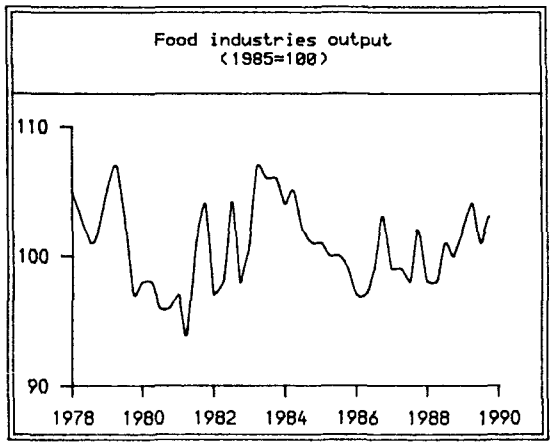
Manufacturing

FOOD, DRINK AND TOBACCO

The Index of Production for the Food industry has shown that there has been a 2% rise in production between the third and fourth quarters of 1989. The fourth quarter figure was 103 compared with 100 for the same period in 1988 while the 1989 average was 102. The UK Index for the fourth quarter of 1989 stood at 104.

The Drink and Tobacco Index was 100 for the fourth quarter of 1989 - 10% down on the previous quarter and 6 points down on the fourth quarter of 1988. The UK fourth quarter figure was 108 showing that Scottish production is lagging behind that of the UK.

The Scottish Chambers of Commerce Business Survey has shown that respondents in this sector are neither more optimistic nor more pessimistic about their general business situation than three months ago - a balance of 1% of firms were more optimistic. A balance of 12% of firms reported an upwards trend in the volume of new orders and a net 49% an increase in sales. In both cases this is expected to continue. The trend in total employment has been downwards for a balance of 3% of firms but a net 12% expect employment to increase over the next three months.



British exports of food and drink increased to £5.54 billion in 1989 - a rise of more than 20%. Cereals export sales rose by 56% to £636 million and drinks exports increased by 14% to £1.8 billion. Sales of food and drink to the US rose to £175 million and exports to France increased by 20%. Sales to the Netherlands increased by 34%. This has helped to reduce the balance of trade deficit although in many cases eg. with respect to France Britain is still importing more food and drink than it is exporting.

Food prices have been seen to be rising faster than the retail price index. The RPI at the end of February was 7.5% yet food prices were increasing by 8.6%. Agricultural prices have been an important factor - last years hot summer affected the potato harvest while chicken production was affected by a virus. Other OECD countries have faced similar problems but their price rises are beginning to tail off while there is no sign of this in Britain. A number of factors may be responsible for this. The depreciation in the pound has made food imports more expensive and there has been speculation that manufacturers will pass on wage rises to the consumer in the form of higher prices which means that prices are unlikely to fall.

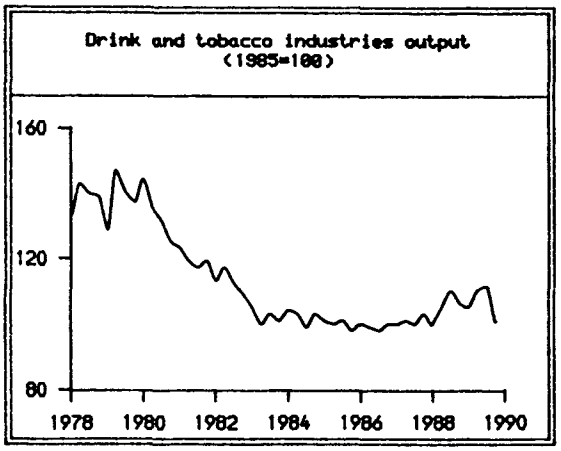
Last quarters' Commentary noted the deal taking place between Courage and Grand Metropolitan to swap Courage pubs for Grandmet breweries. This has now been amended as a result of intervention by the Office of Fair Trading. They will now have to reduce the proportion of beer which tied pubs in their Inntrepreneur Estates would have to buy from Courage. The contract which makes Courage the tied beer supplier to the Inntrepreneur Estates pubs will now only last for 10 years and their exclusive right to supply the house beer to tied pubs will last for only 5 years. If the deal still goes ahead it will create Britain's second largest brewer and largest public house chain.

Allied - Lyons have shown a pre-tax profit increase of 12.5% taking pre-tax profits to £565 million. 55% of profits came from overseas markets and all of the groups' ventures showed good progress. The Chief Executive of the group said that in view of the GrandMet/Courage situation with the MMC they were not going to act prematurely over their future in the brewing industry. During 1989 the group bought over Whitbreads spirits division and the Dunkin Donuts chain.

The Office of Fair Trading have referred the soft drinks industry to the MMC to investigate whether or not the larger companies are using their market positions to ensure that retail outlets sell only their products. Scope for expansion in the UK market (Britains currently consume only half the volume of soft drinks as Americans per head) has led to increased investment in the production and marketing of soft drinks. Coca-Cola/Schweppes has the largest Uk market share with Britvic a close second and the two together account for over half of UK production of soft drinks. Smaller manufacturers fear that they are unable to expand as a result of the dominance of the larger two companies. and the Consumers Association have complained of the high prices of soft drinks in pubs. This is also likely to be investigated by the MMC.

The Imperial Tobacco factory in Glasgow is to be closed in two years time with a loss of 530 jobs. Production will be moved to a new hi-tech plant in Bristol. 410 jobs will also be lost in Ipswich as

Imperial concentrate production in Nottingham, Bristol and Liverpool in order to increase efficiency and retain its 34% UK market share after 1992 when tax harmonisation on tobacco products may mean a sharp increase in imports. The reorganisation of the various plants will lead to 1,240 redundancies in total and will be the end of tobacco production in Glasgow.

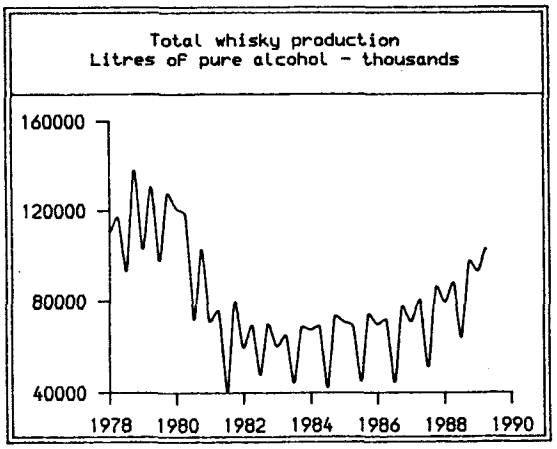


United Biscuits are to set up a £10 million factory at Broxburn in West Lothian on one of their old distribution sites. The factory will employ over 200 people and will begin production in 1991 as the main bakery for Simmers Speciality Biscuits. The Scottish Office have given the firm grants of up to £2 million to help equip the factory.

WHISKY

In the first quarter of 1990 exports of Scotch whisky declined by 1.9% compared with the same period in 1989. However, this was almost totally due to a decline in bulk blended exports, with bottled-in-Scotland blends rising by 2.0% to 38.4 million litres of pure alcohol (LPA), the highest first quarter figure for eight years. The overall fall in the volume of exports need not be a bad thing, since the trend in the industry is now very much towards increased profitability, if necessary at the expense of volume. Home sales continue to be depressed; 1989 sales volume was 43 million LPA, a decline of 4.4% on 1988.

Although there is still some doubt about production levels for 1989, it seems that the position since the depth of the recession in 1983 is as follows; exports up 6%, the home market down around 3%, but production up by over 60%. Coming at a time when most industrialised economies are slowing down and the growth in world trade is expected to reduce during 1990 and 1991, this would not appear to be a terribly enviable position for the industry to find itself in. However, the Scotch whisky industry is not the beast which it was a decade ago. The numerous changes of ownership which have been charted in the pages of the Commentary over the past five years have resulted in a much more concentrated industry, and one which has a leading player (United Distillers) prepared to avoid the temptation to dump whisky onto the market when things get a little rough. It will be interesting to see whether the industry keeps its nerve as stocks start to rise again as more distilleries come on stream, especially given United Distillers' avowed intent to double its production capacity by 1992.



It is against this background that we welcome that rarest of birds, a Scottish company obtaining a full Stock Exchange listing. Two years after its management buyout from Hawker Siddeley, Invergordon Distillers returned to the Stock Market in April, the first Scotch whisky company to do so in many years. The company's performance since the buyout has been impressive, hence the early flotation; profits in 1989 rose by over 40% to £14.7 million on turnover of £74.8 million. The listing has come earlier than expected because of the buoyant nature of the industry over the last eighteen months, and it is to be hoped that the industry remains strong for long enough to enable Invergordon to re-establish itself as a

quoted company. Early indications are positive; Invergordon's £41 million offer for sale was fully subscribed by early May.

Following its recent acquisition by Gallaher, Whyte & Mackay has moved quickly to expand its drinks portfolio through the purchase of the international rights to Vladivar vodka. The brand was purchased from Greenall Whitley for £33 million, and is another step in Whyte & Mackay's process of building up a range of spirits which can be sold on a global basis. Vladivar's export sales are very limited at the moment, but the Whyte & Mackay network should quickly alter this position.

Highland Distilleries had a good half-year to the end of February. Profits rose by 26% to £12.7 million and the Famous Grouse, the company's principal product, had increased sales both at home and abroad. Total sales rose by 12% to £83.9 million. One interesting footnote to Highland's good figures is the demise of its mushroom growing business, begun four years ago to make use of an empty Glasgow warehouse. The corporate literature is littered with examples of apparently well-intentioned diversification attempts which go wrong because the company concerned does not really understand the business it is moving into*. Highland's abortive mushroom business is a very minor example of this tendency, but it has cost the company in the region of £1 million to admit defeat; another example of the need to be very careful about moving into areas which are removed from your real sphere of expertise.

After all the years of wrangling there is at last some evidence that the liberalisation of the Japanese market is proving beneficial for the whisky industry. In the year to April sales by volume of Scotch whisky in Japan rose by one third, although there is no indication of how this translates into value terms.

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* see Michael Porter "From competitive advantage to corporate strategy", Harvard Business Review, May-June 1987.

METAL MANUFACTURING

This quarter has been dominated by the announcement that BS is to close the Ravenscraig hot strip mill. The decision is a consequence of the ongoing strategy of rounding out the Welsh strip plants through the installation of continuous casting systems. The Ravenscraig decision was embedded in the announcement that a second concast machine is to be installed at Llanwern at a total cost of £84 million. Once the second concast system currently being constructed at Port Talbot is commissioned and fully operational, BS will close the strip mill at Motherwell. Until the second Llanwern project is complete, Ravenscraig concast slab mill be used to feed the South Wales operation. After this, the remaining steelmaking capacity will stand or fall on its ability to market slabs internally and externally.

The Scottish lobby has reacted furiously. Belief that this decision is part and parcel of a phased retreat from steel making in Motherwell is total. Since the announcement, Scots politicians have struggled to elevate the closure to the status of a UK national issue. These efforts are not assisted by the splits and schemes evident in the steel lobby over the best way to react to British Steel's proposals. Central to the disputes is a perception of the role which the Scottish Office and its associated agencies should adopt in this matter. A sensible discussion of such issues dictates a clear view of the likely development of BS in a rapidly changing steel market.

For some time, the FAI has been advising corporate clients and others that BS seemed intent on concentrating steel production at a small number of large centres. At an early stage in the Ravenscraig episode, Sir Robert Scholey has given the clearest indication to date as to how a privatised BS will deal with the steel capacity overhang at its existing integrated plants. According to the BS Chairman, the company will progressively concentrate production at two centres. Many products are to be based at Teeside. The Lackenby steel converters have an effective capacity of 3.5 mtpy. However, they are rated to produce circa 6.0 mtpy but are at present blast furnace constrained. The strip division is to be centred in South Wales with the Port Talbot and Llanwern works operated in concert. The implication of this argument is that both the Ravenscraig and Scunthorpe complexes have no long term role within BS.

Scunthorpe provides 4.4 mtpy of steelmaking capacity and has insufficient rolling mill capacity to process this volume of liquid steel.

It is an inland site with relatively high costs in the transportation of inputs. A test of its vulnerability will come through the siting of the proposed single platemill. According to media reports, Sir Robert Scholey has indicated to an SNP delegation that the location choice lies between Dalzell and Lackenby. Either of these outcomes would clearly signal the long run intent with respect to the Humberside complex.

Ravenscraig's steel furnaces could potentially produce circa 3.0 mtpy. A lack of casting capacity creates a bottleneck and the current maximum throughput is 2.2 mtpy. The threat to the Scottish operation is clearly more immediate. The rationalisation of the strip products division is all but complete. Substantial volumes of Ravenscraig concast slabs will be required in South Wales during the installation of the second Llanwern slabcaster. After that, there will be little regular need for bulk supplies of slab in South Wales given known investment programmes. In short, the implication of the closure statement is that the Strip Division which operates Ravenscraig will not need its capacity much after 1993.

At present, Ravenscraig supplies slabs and ingots to the adjacent General Steels division platemill at Dalzell. A decision to construct a 1.2 mtpy platemill is presently under consideration and the refurbishment of Dalzell at a cost of £110 million provides BS with a low cost route to producing the plate product range. Those who suggest that securing platemill investment for Dalzell will benefit Ravenscraig must come to terms with the two awkward facts. First, General Steels have a potential to produce 10.5 mt at their two east coast plants. Second, after 1993 strip products will have no major role or requirement for its Scottish complex. This implies that General Steels would rest content to supply its platemill by purchasing half the manned capacity of a surplus trip division works. The platemill working party is expected to reach its conclusion during the summer. Thus the earliest point at which the British Steel could take a final decision is at the board meeting in September.

It is against this strategic backdrop that the case of continuing Scottish steel industry requires to be marshalled. The proposed rationalisation of locations will take BS sometime to engineer but should be regarded as the company's agenda for the 1990s. At present, there appears little indication of any long term future for Scottish steel production within British Steel. It is this appreciation which ultimately fuels the divisions evident within the previously fragmented steel lobby.

The notion that any campaign should be fought on the basis of the 5 plant policy espoused by the ISTC's Welsh leadership is extremely suspect. It is clearly the case that BS do not consider that operating at 5 sites provides an efficient or rational cost structure within which to face the competitive challenges of the next decade. The real issue facing steel lobbyists is to convince BS and its shareholders that, over the next 10 to 15 years, steel production should be concentrated at 3 sites but that a Scottish location should be chosen instead of the inland site at Llanwern. Given this view, we offer the following comment on the positions adopted by the various parties to the steel debate.

In our view, 3 distinct approaches to the steel industry have emerged in recent months and have crystallised in the heat of the stripmill announcement. First, there are elements who wish to abandon any fight to secure a steel industry and concentrate upon measures to offset the massive impact on the North Lanarkshire economy. The problem with this position is that it conflates the issue of the future of the Scottish steel industry with the survival of the Ravenscraig complex. Those advancing the "abject surrender" option approach the issue in various ways. The most objectionable proponents of these views are those who seek to emphasise that Ravenscraig is a while elephant which should never have been built and that there is no commercial case for steelmaking in Scotland. This is frequently allied to a view that steelmaking, even if feasible in Scotland, is not a desirable activity to pursue. This often comes as a result of ignorance concerning the extent to which the prospects for UK steel and steel-using industries have altered since the days of the 1970s and early 1980s. Thus certain Scottish commentators have labelled Ravenscraig as a "dinosaur".

The difficulty with the "dinosaur" approach is that it is in one sense true. Ravenscraig is an "industrial dinosaur" as are all the other BS plants. New technology threatens the blast furnace, oxygen converter and the hot stripmill and few more will be built in the industrialised economies. However, steelmaking will continue to prosper and endure with new processes and

techniques. At Hunterston, the Scots have the potential to excel on the basis of this emerging technology. In a recent letter to Shadow Trade and Industry spokesman, Mr Gordon Brown, the Prime Minister stressed her concern to attract "new industries" to Scotland. The steel industry provides Mrs Thatcher with the perfect opportunity to advance such a case. The coming decade will see steelmaking becoming regarded properly as more hi-tech than smoke-stack.

On the basis of this scenario, the consequences for Motherwell largely remain. Indeed, any future for steelmaking in Lanarkshire would see considerable job loss due to the adoption of radical process innovations. Thus it is incorrect to criticise the Scottish Office for preparing contingency plans for Lanarkshire which will be needed to some greater or lesser extent in any likely future scenario. However, the wisdom of announcing such plans at the start of a campaign to reverse the closure decision is highly questionable and provides one of a number of worrying aspects concerning the approach of Scottish Office Minister to the whole steel issue.

The second broad campaigning option relates to securing "an independent Scottish steel company". This solution is the policy of both the Liberal Democrats and the Scottish Nationalist party. In addition, a recent opinion poll conducted for Scottish Television indicates that this option commands the support of one-third of the Scottish people and 51% of Government supporters. Although we will argue below that this eventuality should be fully explored, it would be wrong to create the impression that there is any likelihood of a flotation of Scottish and related assets.

In our view, the last chance to secure such an entity fell in 1988, when both major parties rejected the Ravenscraig, Sholton Dalzell (RSD) option in favour of the flotation of BS as a single company. However, it should be stressed that the RSD episode does provide the perfect counter to those London based commentators who have wrongly characterised the Scottish steel lobby as "subsidy junkies". Love and Stevens (1988) sets out a full review of the arguments made at the time by Motherwell MP, Dr Jeremy Bray. The Arthur Young report, on which the RSD proposal was grounded was commissioned by Motherwell District Council. The consultants assessment of the situation was that it would prove in BS's interest to continue to phase out their Scottish operations and provided forecasts of both the required investment decisions at other plants and their possible timing. These projections have proved to be remarkably accurate.

In the final event, the argument for the RSD option was to create a management structure whose interest would like in successfully operating the Scottish assets. It would have provided a market test for the Scottish operation as opposed to the evident and hostile bureaucratic process facing the assets within a privatised BS. The notion that Ravenscraig has "failed in the market" is fanciful. The Scottish assets do not interfere directly with the market and their performance and profitability is a function of plant loading and investment decisions. The truth is that, rightly or wrongly, Ravenscraig fails to pass muster in the higher echelons of British Steel. This tells us very little about how a coherent steel business based on the Ravenscraig steelmaking capacity would have fared in present market conditions.

Thus, using the RSD episode to deflect the "white elephant" and "subsidy junkies" approach to the issue is a strong argument. Motherwell District Council and the local MPs did not want Ravenscraig to be part of BS and would have rested content to see the RSD package stand or fall in the competitive arena as opposed to the anti-pathetical BS managerial culture. Ex post, it is clear that RSD would have been successful in the late 1980s. However, such arguments do not translate into a strong case for the formation of a separate entity at the present time.

Those advocating such solutions require to face 2 related problems. First, the Scottish assets are not for sale nor are they likely to be put on the market. Second, the Scottish assets in themselves do <u>not</u> constitute a coherent unit in steelmaking terms. There would be an immediate requirement to invest substantially in finishing facilities over and above those commitments necessary to maintain the existing plant beyond the late 1990s. For such reasons, Love and Stevens (1990) have argued that the obstacles to the formation of a separate Scottish based entity are "formidable" and that the best options for the long run defence of the Scottish steel industry lie within British Steel.

The RSD option was advanced at a time when there was a clear process from which such an entity could credibly emerge. This option was put as an amendment to the legislation setting up BS as a

public limited company prior to public flotation. No such clear avenue or process exists at the moment. A coherent case can be assembled which suggests that BS is a monopoly in terms of the UK market and a leading light in the Eurofer steel cartel. Since November, BS has acted in concert with other European producers to rein back production. As set out in previous Commentaries, BS have used this respite, in conjunction with favourable exchange rate conditions to raise domestic prices across the flat products range by between 2% and 7%. The normal round of annual increases is due this quarter. This behaviour has incensed UK steel consumers who continue to press for a less protected European steel market. There is thus some a priori case that BS is guilty of abusing a "dominant firm" position and Scots have reported the company to both the Office of Fair Trading and the EC Competition Directorate.

The rationale for these overtures appears confused. The ISTC who support the MMC referral view this as a means of obtaining detailed information on the reasons for the Ravenscraig HSM closure. Others view that the outcome of this process would be a break up of BS on competitive grounds thus releasing a coherent saleable package on to the market. The steel unions' Welsh leadership would be amongst those most horrified if this eventuality was realised, this would result in BS's Scottish employees competing directly for survival against BS's other operations. However no matter how strong the case for breaking up BS, both in terms of the competitive position and the inherent fairness to a loyal but unwanted workforce, the idea is politically dead. To secure this option requires one to believe that the UK government will admit that mistake were made during the privatisation of BS and use its good offices to rectify this situation. There is absolutely no evidence that such issues form any part of the Government's agenda for steel or that any case could be marshalled which would convince the DTI of the correctness of busting up BS.

Given this, any in depth account of who might purchase the Scottish based operations if facile. However, points can be made. First, RSD was not a separate Scottish steel company. The proposal included the Sholton finishing capacity in North Wales and would have been headquartered in Manchester. Following the Gartcosh closure, the Scottish assets taken together do not constitute a coherent saleable unit. There is an under-representation in finishing capacity and a local shortage of necessary managerial and technical functions. Finishing operations would require to be found from BS's English and Welsh capacity. Second, the content of any package extracted for sale would govern the type of buyer likely to be found. In our view, the Scottish assets as they stand would require to be bought by another steel maker. A priori, there is an argument which suggests that the Japanese or Koreans may show interest and this notion has received public support from Strathclyde Regional Council Leader Mr Charles Gray and Scottish Industry Minister Mr Ian Lang.

The "Japanese" option gains credibility from the following argument. The next 20 years will see the emergence of a small number of large, multi-nationality based steel companies. the Japanese have already intervened in the US market albeit through joint venture rather than the purchase of capacity. The broad trend in the globalisation of Japanese business is is one of companies first setting up operations in the UK market and eventually setting up European bases. Because of language and cultural similarities, many Japanese companies opt for the UK as a first European production point. A recent example of this phenomenon is the car industry.

However, a strong a priori case is not a sufficient basis on which to secure the future of the Scottish steel industry. The Japanese have no significant presence in European steel markets. This appears to result from a deliberate policy of allowing European restructuring to carry on without Japanese steelmakers further undermining the viability of European companies. Although the bulk of the rationalisation was undertaken in the first part of the 1980s, there still remains little sign of an enhanced Japanese presence in European markets. Thus, it is not clear that the Japanese currently want a European production base. The most obvious way to expedite matters would be to retain Japanese Steel analysts to consider its proposition, identify if and how Scottish steel assets could be marketed to the Japanese and advise on the best way to approach Japanese steel producers. It was a considerable surprise that both Mr Gray and Mr Lang chose to make up beat projections of Japanese interest without recourse to such as appraisal. In addition, although there may be considerable industrial logic inherent in the Japanese option it has serious political drawbacks. Not only

would one require to believe that the UK government would wish to break up BS, but that it would countenance the arrival of Nippon Steel or some other oriental producer to challenge BS in its home market. Despite its persistent line in free market rhetoric, the present Government is not likely to be party in any such outcome.

In the final analysis, the "independent Scottish steel industry" option is inherently dishonest. The reality is that only another steelmaker would have the managerial, financial and technical resources to take on the less than coherent Scottish assets. Rhetorical flames about Scots buying and running Ravenscraig do not constitute a feasible or sensible approach to the problem facing Scottish steel.

The foregoing discussion implies that the Ravenscraig shop stewards are essentially correct in their conclusion that the most promising options are those based on persuading BS that its Scottish operations deserve continuing role within the company. In the first instance, this involves a campaign to elicit the information on which the closure decision rests and to challenge its assumptions. This option requires an independent assessment of future steel demand and such projections have been commissioned by Motherwell District Council. The next stages of the campaign rest of this data and there are several possible eventualities.

In the first instance, the Stewards seem intent on arguing that the closure of the Ravenscraig HSM will not lead to an overall reduction in the unit costs of strip products if the Ravenscraig order book is distributed across the Llanwern and Port Talbot plants.

This argument rests on the view that Ravenscraig tends to process small or difficult orders which would jeopardise efficient throughput at the large South Wales complexes. In this view Ravenscraig is argued to be complementary to South Wales with the former specialising in the higher value added range whist the latter concentrates on volume production. This is a variant of the argument which failed to secure the Glengarnock and Gartcosh rolling mills. Even if this is true, it will be difficult to challenge BS figures which clearly present a contrary argument. In such exercises, the views of the company will tend to be believed rather than the views of most outsiders.

On the basis of the commissioned demand forecasts, it is likely that a stronger case can be made for investment in this slab casting at some future point. This, in conjunction with the siting of the proposed unified platemill at Motherwell, are seen as securing a long term role for the Ravenscraig furnaces. However, this argument requires to be supported by a persuasive analysis that BS ought to favour the development of Ravenscraig as opposed to more favourably located capacity at coastal locations. It is hard to believe that a strong argument can be made for this.

However, the imminence of one step steel making technologies and the existence of a fully serviced site next to the deepwater port at Hunterston provide Scots with their final and strongest argument to remain in steelmaking. The case to assemble is that BS are indeed correct to concentrate production at 2 or 3 favoured centres but that the long run optimal configuration is Hunterston, Lackenby and Port Talbot as opposed to the presently preference of Lackenby, Llanwern and Port Talbot. Llanwern is not a coastal location and would not offer lower production and distribution costs compared to Hunterston. In addition, the main advantage which sustained Llanwern over Ravenscraig throughout the 1980s was the existence of Llanwern's continuous HSM which is arguably one of the best strip mills in Europe. The new thin-slab casting technology will ultimately erode the force of this argument and Llanwern will be exposed as a relatively inefficient steelmaking location compared to coastal sites such as Port Talbot or Hunterston.

The recognition that BS's commercial interests in the 1990s dictate adoption of new technology and that Hunterston provides an optimal base for such developments allows a strategically sensible argument to be made for new technology at Ravenscraig and for the upgrade of the Dalzell platemill. By retaining Ravenscraig as a staging post to a future Hunterston complex, BS would derive greater flexibility to engender more rapid contraction at other sites, most notably Scunthorpe and ultimately Llanwern.

The first set of people that require to be convinced abut the potential for Hunterston are Scots themselves. For this reason we call upon the Secretary of State for Scotland to commission a strategic analysis of BS's UK options in the 1990s. In particular, we favour Japanese

consultants for 3 main reasons. First, Sir Monty Finnieston crafted the Scottish assets on the Japanese coastal model. Indeed, Hunterston is potentially one of the finest examples of its genre anywhere in the world. Thus, Japanese analysts would have a certain affinity towards the optimal Scottish structure and its potential. Second, it is perhaps time that an external perspective was brought to bear upon the view that Scotland is a poor place to produce and distribute steel to UK and European markets. We do not consider that the small additional distance from Scotland to the main steel using centres constitutes a valid argument against Scottish steel production. Again the Japanese with a tradition of exporting to distant markets from low cost "Hunterston-like" locations, would appear a sensible choice to appraise this issue. Third, Japanese steel analysts would be a perfect position to shake up BS's limited technological outlook. In past encounters with BS, Dr Jeremy Bray has persuasively argued that BS have little incentive to capitalise upon their research into new technological processes such as Direct Smelting and TSC. The basic reason for this is the capacity overhang which exists in terms of oxygen steelmaking and hot strip mills. Indeed, the recent announcement that a second "traditional" concast machine is to be installed at Llanwern at a time when continental steelmakers such as Tysden, Usinor-Saulir are commissioning thin slab casting lines evidences this worrying trend.

As set out above, it is our view that any such Japanese consultancy should consider the potential for selling off the Scottish assets either on their own or as part of a broader package. Given that we are not sanguine about the outcome we advance this view for 2 broad reasons. First, there requires to be a common purpose to the steel campaign built round the strongest possible set of arguments. To achieve this, it is necessary to fully appraise and eliminate the weaker or more unlikely options. Second, it is our view that Hunterston is possibly the only Scottish steel asset which is potentially saleable to an international steel company. The new technologies will result in substantially lower capital costs per tonne of capacity and could offer oriental steelmakers a cheap greenfield solution should they require European production bases.

The potential to market Hunterston in this respect should be fully examined. In the first instance, the relevant point to establish is that the Chairman of Nippon Steel could mount a credible challenge in European markets from a Hunterston location. If BS do not wish to undertake this, the consultants could advise on whether an oriental producer would wish to undertake this challenge and recommends a strategy for marketing this idea in Japanese or Korean boardrooms.

In conclusion, we view that the 1990s ought to hold great promise for Scottish steelmaking. To secure this future we require help to identify where our key arguments lie and where they do not. The endorsement of a Scottish strategy by internationally respected steel consultants is a sine qua non for such an exercise. We view that there is an internal dynamic within BS which will, if not seriously challenged, result in total retreat from Scotland. A contrary analysis by consultants would put great pressure on Sir Robert Scholey in the eyes of shareholders, government and the wider public.

Ultimately, Motherwell will not survive as a steelmaking centre and this will bring manifest problems for that community. The history of Sottish steel illustrates a failure to come to terms with this conclusion. Thus, Scotland's politicians have blocked past attempts to shift production to more efficient coastal locations at Grangemouth, Inchinnan and latterly Hunterston. In the 1990s, Scotland will be presented with its final chance to stay in steelmaking.

In our view, this would require a move to the coast. We look to the Scottish Office not to repeat its past mistakes but to assess this scenario and act upon it. In a review of Love and Stevens (1990) and other material, the Economist magazine argued that there is "still time for a new strategy". In our view, Scottish politicians have months rather than years to take the initial steps which will allow us to capitalise on this endorsement.

References

Love & Stevens "RSD; a comment", Quarterly Economic Commentary, June 1988.

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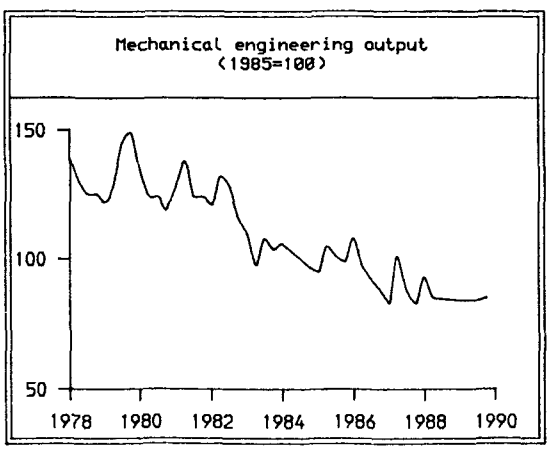
MECHANICAL ENGINEERING

Earlier indications of stability in the mechanical engineering industries have been confirmed by recent data. Output in the final quarter of 1989 remained at around the level first established in the second quarter of 1988. Employment grew by 1.8% in the engineering, metal goods and vehicles sector during 1989, which can probably be interpreted as implying a similar slow growth rate for the mechanical engineering sub-sector. Over 1989, the Scottish industry has had rather worse performance in terms of output in comparison to the British industry as a whole.



The view from within the industry is decidedly optimistic, with the Scottish Chambers Business Survey recording positive responses for new orders and sales both in the three months to May 1990 and in their expectations for the coming quarter. Employment, however, had a negative balance of responses (positive minus negative responses) for the quarter just past, although the outlook was more optimistic. However, skilled labour shortages now appear to be a significant factor in restraining output growth, although lack of orders remains a more important constraint. The survey was carried out before the announcement of the Ravenscraig steel closure was announced, though considerably after the government's change of policy on large power stations.

Lack of training and thus a low skills level was identified as one of the strategic weaknesses in the UK engineering industry as a whole in an industrial forecast by Cambridge Econometrics. Other problems identified were lack of research and development and capital expenditure. Because of these drawbacks, Britain's early involvement in such sectors as industrial automation and new materials are seen as at risk. For the mechanical engineering industry in 1990, the report projects slower growth and lower productivity gains which are seen as due to falling investment. The expected 3% increase in output is better than the economy as a whole due to the export orientation of the industry. However, although the industry is projected to return to a trade surplus in the years to 1995, this could be at a lower level of output. The single European market and the effects of the UK's entry to the European Monetary System are both seen as allowing increased competition from continental producers. Employment is forecast as being stationary.

The implications of this analysis for Scotland may be fairly positive than might be thought from the relatively poor performance during 1989. First, Scottish firms are apparently doing fairly well in export markets, according to the consistent picture painted by the Scottish Chambers Business Survey. If firms are used to competing on a European scale before the completion of the European market, they will be more able to survive after. It is the retention of a domestic base that is more likely to be put at risk. Scotland has perhaps a more export-oriented industry than the UK as a whole.

A relatively poor performance compared with the rest of the UK is projected for 1990 for the Scottish civil engineering sector by a survey conducted by the Federation of Civil Engineering Contractors (FCEC). The main reasons for this are the impetus south of the border from water privatisation and in Southern England from Channel Tunnel construction. While the government has had a policy of attempting to spread Chunnel contracts outside the South-East, this is widely regarded as having failed. Generally, profit levels remain poor.

The highlights of the firm news are the £10m investment programme for the Anderson Group longwall mining equipment plant in Motherwell. This is taking place with a £2.7m grant from the Scottish Office as part of a global restructuring strategy of returning to core businesses. This has also led to the disposal of the M&C Switchgear plant at Bridgeton, Glasgow to the local firm Bijay Engineering. This plant produces switchgear

and computerised ticket machines. Both plants were previously at risk of closure.

Less positive news is that Highland Fabricators at Nigg is shedding 1000 jobs on completion of the £100m Shell-Esso Sole Pit order. This leaves 2000 staff remaining. Approximately half the redundancies were from local people, the remainder from contract labour.

The industry-wide union drive to set a 37 hour week focused on the Weir Group, where strike ballots were successful in a number of plants, notably at Cathcart, Glasgow. The eventual settlement involved company concessions on implementation.

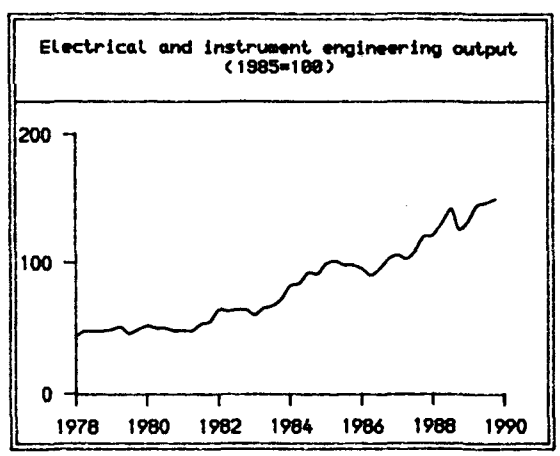
The reorganisation of the European power engineering industry has finally touched Scottish firms in the wake of the change in government policy regarding new large nuclear and coal-fired plants. Babcock International has formed an association with Ahlstrom of Finland, a specialist in low-emission coal power stations. Babcock will market Ahlstrom technology in the UK, although the group sees its main thrust as currently being in continental Europe and the USA. Ahlstrom were involved in a British Coal power station project in England but have withdrawn.

Babcock have also attempted to persuade government to increase its power station desulphurisation programme. The reduction of one third in this project is however to remain and the May 'standstill' policy statement on greenhouse gasses is likely to require less power station investment than a policy requiring actual reductions. Babcock, Weir and Howden, the Scottish firms potentially most affected by the generating station policy change have all adopted strategies of overseas diversification and acceptance of smaller contracts in the UK. Weir have already reduced their PWR-related staff. If a further employment reduction occurs, it is likely to happen in 1991 rather than this year. The power station policy is due to be next reviewed in 1994.

ELECTRICAL AND ELECTRONIC ENGINEERING

The index of production for electrical and instrument engineering stood at 144 for 1989 as a whole, an increase of 10.8% compared with 1988. This is a considerably faster rate of growth than for the UK as a whole; during 1989 the UK index rose by 9.3% to 129.

After a period during which several electronics firms elected to invest in other parts of Europe rather than Scotland, the last few months have seen some movement back to Scotland being chosen as a preferred site. The latest movement here involves not a new greenfield site but a takeover; ITEQ Europe, based in Irvine, have been acquired by Amkor/Anam of Korea, reputedly the world's largest assembler of semi-conductors. Amkor/Anam says it will now invest £20 million at the Irvine site and hopes to create 700 new jobs in addition to the 300 which already exist. ITEQ became briefly Scottish controlled three years ago following a management buyout from its American founders, Indy Inc.



In the last Commentary mention was made of Motorola's decision to establish a plant in West Lothian producing cellular telephones. Before the site has even been established Motorola have doubled the size of the projected workforce from 1500 to 3000, apparently because the market for personal telephones is growing even faster than was previously thought - at around 50% per annum. Coupled with the decision of NEC to invest £30 million in its Livingston silicon wafer factory, creating another 100 jobs, and further expansion by Compaq at Erskine, this has gone a long way to restore Scotland's "Silicon Glen" image following the problems at Wang.

Nevertheless, some electronics firms are scaling down the extent of their Scottish electronic operations. As the last Commentary went to press, Apollo computers announced that is Livingston

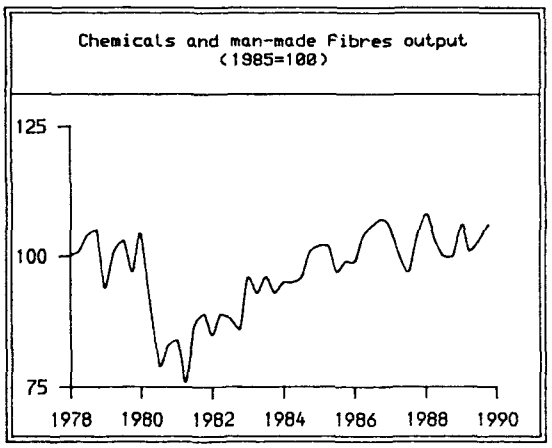
plant is to be closed following the Company's takeover by Hewlett-Packard. Work station assembly and repair were carried out at Livingston, with the latter being transferred to H-P's site in South Queensferry and the former to a plant in West Germany. While Apollo assembly personnel will be offered jobs with H-P somewhere in the world, no doubt many will be hoping to obtain jobs at the new Motorola plant. The Livingston Apollo plant formerly employed 248 people.

Meanwhile, Apricot Computers has decided to concentrate on software and computer services, and has thus sold its hardware division to Mitsubishi for £39 million. This division effectively means Apricot's Glenrothes factory, which has recently been working at around 50% of capacity. Since Mitsubishi do not have a personal computer manufacturing plant in the UK, and since the Japanese company has elected to maintain the Apricot name, prospects look reasonably bright in the short term for the Glenrothes workforce. In the longer run the outlook could be very bright indeed, as Mitsubishi apparently have the intention of pushing Apricot into the big league of computer manufacturers, which means those companies manufacturing around 500,000 machines per year compared with the 40,000 per year currently manufactured by Apricot.

CHEMICALS AND MAN-MADE FIBRES

The latest Scottish index of production figures show that 1989 was the third consecutive year of growth in the chemicals sector in Scotland. The index stood at 106 for the fourth quarter of 1989 which was up 3% on the preceding quarter and 6% up on the fourth quarter of 1988 although 1989 as a whole was only 1% higher than 1988. The UK chemicals sector, on the other hand, was at 119 for the fourth quarter of 1989 which was 1% down on the same period in 1988. The UK chemical sector increased by 4% to an average of 119 for 1989 as a whole.

The May 1990 Scottish Chambers Business Survey (SCBS) for the chemicals sector shows that a balance of 2% of respondents are more optimistic about the general business situation than they were three months ago. Ninety per cent of respondents are as optimistic about the general business situation as they were three months ago. The previous SCBS had a balance of optimism of negative 46 so clearly there has been an improvement in outlook in the chemicals sector.



A balance of 13% of respondent firms are expecting new orders to increase in the next three months. Scottish new orders are set to increase for a balance of 9% of respondent firms whilst orders to the rest of the UK are expected to fall for a balance of 19% of respondents. Export orders are increasing for a balance of 19% and the same is true of export sales. Balances of -74% and -34% of respondents are expecting to run down stocks of finished goods and raw materials respectively. This builds on the run down as reported in last quarter's Commentary where the equivalent figures were -17% and -22%.

SCBS respondent firms report a capacity utilisation of 88% and foresee employment increasing by 2% in the next three months. Any revisions to investment decisions have been upward, however, 96% and 98% of respondents, reported no change in their investment decisions over the preceding three months.

In April the British government outlined an ambitious plan to treble its capacity for reviewing pesticide safety. John Gummer the Agriculture minister is to recruit extra scientists to help alleviate the increasing backlog of pesticide reviews. There are around 15 new pesticides every year that are submitted for approval and the current backlog stands at around 40. Review capacity is hoped to be increased from about eighty this year to 25 by 1993. The cost of this increase in capacity is estimated to be £7.7 million, up £2.9 million from the present cost of

Table 1 Exports of chemical products by main regions (£ millions)

	Jan-Dec 89	Jan-Dec 88
EEC countries	6501	5873
Other Western Europe	1128	1007
North America	1290	1227
Other developed countries	927	840
Latin America	266	232
Middle East	758	781
Other developing countries	1106	1016
Communist countries	369	352

Table 2 Exports of chemical products by main European markets (£ million)

	Jan-Dec 89	Jan-Dec 88
Austria	81	75
Belgium-Luxembourg	759	715
Denmark	174	169
Finland	134	118
France	1253	1095
Germany, West	1383	1286
Hungary	40	34
Ireland	598	539
Italy	676	596
Netherlands	1005	904
Norway	115	100
Poland	46	47
Soviet Union	148	132
Spain	396	386
Sweden	318	280
Switzerland	319	294
Yugoslavia	50	43

Table 3 Exports of chemical products by main product groups (£millions)

	Jan-Dec 89	Jan-Dec 88
Organic chemicals	3373	3138
Inorganic chemicals	1021	1105
Dyeing and colouring materials	1063	938
Pharmaceutical products	2016	1735
Toiletry and cosmetic products	1003	943
Manufactured fertilisers	105	90
Plastic materials (in primary form)	1244	1113
Plastic materials (non-primary)	686	616
Other chemical products	1835	1651

Source: Chemistry & Industry, 7 May 1990

Table 4 Imports of chemical product by main regions (£ millions)

	Jan-Dec 89	Jan-Dec 88
EEC countries	7451	6719
Other Western Europe	1104	988
North America	1081	901
Other developed countries	314	265
Latin America	50	40
Middle East	134	110
Other developing countries	119	94
Communist countries	184	191

Table 5 Imports of chemical products by main European markets (£ millions)

	Jan-Dec 89	Jan-Dec 88
Austria	82	85
Belgium-Luxembourg	995	878
Denmark	173	155
Finland	96	80
France	1466	1284
Germany, West	2171	2018
Hungary	15	14
Ireland	384	348
Italy	427	371
Netherlands	1641	1509
Norway	144	141
Poland	24	23
Soviet Union	43	61
Spain	137	111
Sweden	258	256
Switzerland	504	407
Yugoslavia	9	9

Table 6 Imports of chemical products by main product groups (£ millions)

	Jan-Dec 89	Jan-Dec 88
Organic chemicals	2631	2352
Inorganic chemicals	1006	910
Dyeing and colouring materials	612	543
Pharmaceutical products	1061	875
Toiletry and cosmetic products	681	615
Manufactured fertilisers	271	203
Plastic materials (in primary form)	2059	1935
Plastic materials (non-primary)	996	910
Other chemical products	1119	964

£4.8 million. It has been announced that the fee for approving an active ingredient will be raised from £7,000 to £30,000. With the existing sales levy the entire system will be financed by industry.

Exports of chemicals by leading British manufacturers reached more than £12,300 million in 1989 up 9% in the previous year. British exports to Western Europe amounted to £7,600 million, a 12% increase on 1988. These increases were widespread and useful gains were made in a number of key countries; France up 14%; West Germany up 7%; and Holland up 11%. Exports to North America were up only slightly but exports to the Far East showed a healthy 10% rise.

British imports of chemicals have been fluctuating but exhibited a marked increase in 1989, up 12% to over £10,000 million. Britain's surplus in the chemicals sector amounted to £1,908 million in 1989, down from the 1988 figure of £2,020 million.

Tables 1 to 6 illustrate the overall British position regarding trade in the chemicals sector.

The latest figures from the Department of the Environment* reveal a continued steady decline in sulphur dioxide emissions coupled with an alarming increase in carbon monoxide output. But what of the government efforts to control air pollution? The DOE officials conclude that the 1984-85 miners strike did more to reduce pollution levels than any of the more recent green policy formulations. The electricity board's enforced switch from coal to oil caused emissions of most pollutants to drop. Sulphur dioxide emissions jumped 5% in the year after the strike, negating the cut of 5% achieved in 1988. In 1984 methane emissions were down 20% on the previous year as mines were left unworked.

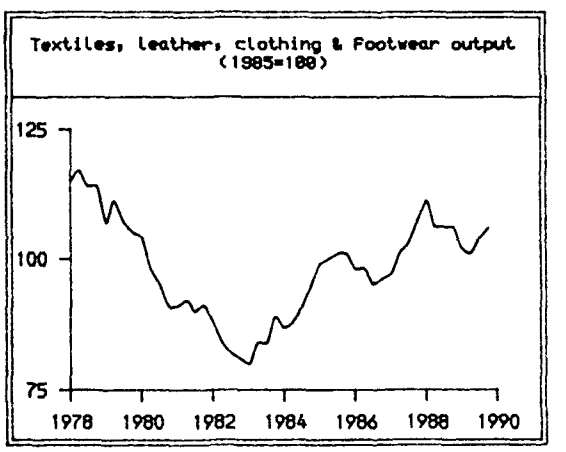
The decline in manufacturing output through the early 1980s and the shift away from heavy industry have also had a beneficial effect on the environment. Sulphur dioxide output from the industrial sector (excluding power stations and transport) fell 52% between 1979 and 1983.

However, spiralling growth in road transport, has led to sharp increases in carbon monoxide output. In the ten years to 1988 the road transport sector generated 20% more carbon monoxide than in 1978, and its share of total emissions rose from 79% to 85% during the period. Road transport is also blamed for the rise in nitrogen oxide emissions which followed a similar pattern to carbon monoxide.

* "Digest of Environment Statistics", £10.80, HMSO.

TEXTILES, FOOTWEAR, LEATHER & CLOTHING

The Index of Production for Scotland has shown a 2% increase for the Textiles, Footwear, Leather and Clothing sector between the third and fourth quarters of 1989. While the fourth quarter figure of 106 is better than the 1989 average of 103 it is the same as that for the fourth quarter of 1988 and is, in fact, slightly lower than the 1988 average of 107. This indicates that while there has been a slight increase in production, levels are only just reaching those experienced in the previous year. The UK index for the fourth quarter of 1989 was 99 - 7 points lower than the Scottish figure.



The latest results from the Scottish Chambers of Commerce Business Survey show that respondents in this sector are still fairly pessimistic despite a balance of 19% experiencing an increase in sales. This is not expected to continue and a net 13% of firms are less optimistic about their general business situation than they were three months ago. The trend in the volume of new orders was downwards for a balance of 15% of responding firms and a net 21% expect this to continue over the next three months. A small minority (net 6%) experienced an increase in the total volume of non-UK orders while Scottish and UK orders look

less healthy. The trend in employment is downwards for a balance of 16% of respondents - male and female employment have been equally affected. A net 2% of firms expect employment to increase over the next three months.

Investment intentions in plant and equipment have been revised downwards for a balance of 20% of firms compared with three months ago and 78% of respondents believe that orders and sales are most likely to limit output over the next three months.

Coats Viyella have made year end pre-tax profits of £137.4 million - £2.2 million more than last year. This increase conceals that £8 million of pre-tax profits came from converting dollar profits into now slightly weaker pounds and also that profits were doubled from the sale of surplus assets created from rationalisation. Another factor was the £4.5 million dividend income from Coats' 29.9% share in Tootal.

Good news for the Company is that the Scottish threads division is doing well in international markets as well as the Castlemilk children's wear business. It also looks as though the group will have net cash this year - stock levels have been reduced and there is to be a lower capital expenditure programme. High interest rates and a strong pound still remain a problem.

William Baird, the Glasgow based textiles and engineering group has also shown year end increases in pre-tax profits. This year they rose to £33.3 million - a 4% increase on the previous years' despite paying doubled interest charges of £3.7 million. Baird has recently purchased 2/3 of the Paisley Hyer ladies skirts and dresses business and S.Leffman a lingerie business in South West England.

The Scottish Office have blocked a £100,000 factory extension to the Tom Scott Knitwear premises at Denholm. Councillors at Borders Regional Council voted against the extension last July on account of objections from residents in the Denholm area. The company then appealed to the Scottish Office. The extension would allow production capacity at the factory to double for the fourth time in eleven years and would increase the number of jobs from the current 28. The Council Planning Department is now looking at alternative premises in Hawick to allow the expansion to take place.

Borders Regional Council are also involved (alongside the Scottish Development Agency) in providing a 60,000 square feet warehouse for Slumberdown International. The £2.5 million joint venture is likely to create 140 jobs in Hawick as Slumberdown expand and invest in a 15,000 square feet factory.

At a time of speculation over the proposed abolition of the Multi-Fibre Arrangement, the National Consumers Council (NCC) has published a report calling for the European Community to take the lead in international negotiations to abolish restraints on trade in textiles and clothing. The Apparel Knitting and Textiles Alliance has come out against the report saying that it is "badly-researched, ill-informed and irresponsible" and that it could lead to the closure of some overseas markets to UK exports as well as dumping and theft of designs and brand names. The NCC has argued in return that consumers interests have long been ignored and that they wish to redress this imbalance. They believe that it is important that the public know of the hidden costs of protection.

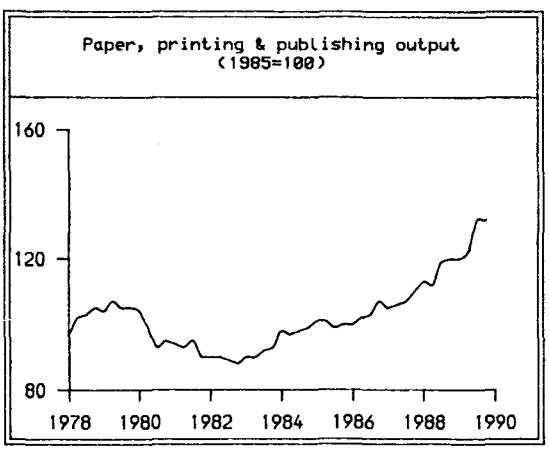
There have been fears expressed by the Scottish Textiles organiser of the Transport and General Workers' Union over the level of imports into Britain of Turkish textiles and of the alleged breach of fair trading regulations by Turkey. Although British textile exports rose to £3.95 billion, imports were valued at £7.54 billion. The trade deficit thus rose by £243 million to more than £3.5 billion. It has been suggested that cotton is being provided to Turkish producers at lower than market level prices which is distorting competition. The T&GWU are pressing the European Commission to investigate this situation.

PAPER, PRINTING AND PUBLISHING

The Index of Production for the Paper, Printing and Publishing sector for the fourth quarter of 1989 stood at 132 - unchanged from the previous quarter's figure and 12 points higher than for the same period in 1988. The fourth quarter figure for the UK in 1989 was 133 and the 1989 UK average was 132. Scottish production levels are now broadly comparable with those of the UK.

The latest results from the Scottish Chambers of Commerce Business Survey has shown mixed results for this sector. While the trend for both the

volume of orders and sales has been upwards for the majority of firms (a net 50% and 51% respectively), a balance of 17% of firms are less optimistic than they were three months ago about their general business situation. This is also despite the expectation that the increase in orders and sales is likely to continue for the next three months. The classes of orders and sales expected to experience a downwards trend are orders from and sales to the UK as well as Scottish sales. The trend in employment is upwards for a balance of 11% of firms and a balance of 6% expect this upwards trend to continue.



Capacity utilisation is 92% and 33% of firms asked cited increased efficiency as the main reason for new investment. 74% of firms believe that orders or sales will most likely limit output over the next three months.

There has been speculation that the Edinburgh-based printing company Pillans and Wilson is about to change ownership. The company was bought less than two years ago by the Leicester print group Colorgraphic and it has been said that they are now looking for a buyer. Pillans and Wilson is important to the Scottish corporate sector and change in ownership may have implications for it. The Managing Director has stated that the company has a commitment to this sector and that they are continuing to invest heavily. Since Colorgraphic took over Blackwood Pillans and Wilson they have created a new division called Color Response which specialises in direct response advertising material - one area where Colorgraphic specialises. This leaves Pillans and Wilson as the only non-core business in Colorgraphic's companies.

Macfarlane Group (Clansman), the Glasgow based packaging firm has shown pre-tax profits of £9.26 million - a 27% increase on last year. The company employs 1,800 people in 40 locations in the UK and last year expanded into Europe for the first time when the packaging division bought Paris Fibre, also a packaging company, and the marking products division bought TMP. In addition the development division took over Adhesive Labels the Slough based company. £7.5 million worth of investment has taken place on both plant and buildings and there has been diversification over a wide number of markets.

Services

FINANCIAL SECTOR

Recent events have demonstrated once more the difficulty of divorcing discussions of the financial sector from the twin themes of regulation and innovation. Arguments over disclosure of life assurance commissions, the widespread marketing of credit including the indiscriminate use of mailshots encouraging people to borrow, and the ability of pension funds to take over investment trusts continue to surface with proponents and antagonists calling, as the case requires, for special protection and rulings. Such calls are rarely associated with any but the most casual justification and it is worthwhile to emphasise once more that the UK has moved to a system of prudential regulation and abandoned structural regulation since it inhibits competition, rarely benefits the consumer and acts to protect complacency and vested interests. The call by the investment trusts for protection against takeover bids from pension funds smacks of such protectionism. No thought is given to the interests of the investors who stand to benefit immediately from a reduction in the discount. We are merely regaled with platitudes about the long term advantages to investors of having an investment trust industry. The takeover of Globe does not spell doom to the industry but even if it did, if the benefits of investment trusts are so great why don't investors buy investment trusts in preference to unit trusts?

In part, the answer may be lack of information.

For a competitive market to work effectively it is essential that information is easily and cheaply available. It is the only way that investors can be properly informed of the opportunities open to them and is behind the requests for better disclosure in the life assurance industry. Scottish fund managers would be the first to complain if when buying shares on the International Stock Exchange (ISE) they were quoted a price that included commission and no breakdown was provided (or readily derivable) as to the division between the price of the shares and the costs associated with buying them. How could they know if they were getting a fair deal? And yet, this is precisely the situation they have been trying to protect for several years. The criticisms by Mr David Berridge, Chief Executive of Scottish Equitable of the Office of Fair Trading's ruling that disclosure rules for life assurance products are anti-competitive, suggest that some Scottish fund managers believe that information on commissions and expenses is unnecessary for consumers to make sound decisions. Such a position is indefensible and it is time for the Scottish life offices to admit it. Even on hard economic grounds it is difficult to believe that the Scottish Institutions fight against disclosure of commissions has really been worth all the management time involved.

Calls for restrictions on the widespread marketing of credit have also highlighted the poor information often provided with financial products, in this case to borrowers. The Government's solution, a voluntary code of practice, will require lenders to provide clear information about the terms and conditions of contracts, charges under different circumstances and the possibilities of complaining. In general, the changes are to be applauded for whilst there is some merit in the view that markets can overcome informational problems because purchasers take notice of the reputation of the seller, events have shown that even apparently informed institutions make mistakes in their purchases (Atlantic Computers!). It may not be appropriate to require professionals in financial markets to be protected by legislation but it is right that consumers should be informed of the precise terms and conditions of loans and other financial transactions. Consumers should not, in general, be protected from their own folly and greed but they do have a right to clear, unambiguous information wherever possible.

Recent figures on investment by banks in information technology have highlighted once more the role of innovation in the financial sector. Total spending on information technology in the US by the banks is now close to 1% of banking turnover and appears to be growing. Banks are major consumers of large mainframe computers and rely on them for their communication networks providing information and money transfers between branches, automated teller machines and increasingly electronic fund transfer. The growth in information technology poses particular problems for the banks and has serious implications for their existing workforce many of whom must develop new skills. The retail operations of the banks of the future will need personnel who can market the banks products and provide advice to customers, and people who are comfortable with computers and exhibit a high degree of computer literacy. It is not clear that current bank staff or indeed current bank training exhibit strengths in these areas. Recent changes in the TSB and worries about job losses suggest that the effects of information technology together with the regulatory changes of the last five years are beginning to be felt. The much talked about breaking down of barriers between staff and customers motivated by a desire and need to sell a wide range of financial services and not just distribute cash has started to happen. At the same time back office services are being rationalised and removed from individual branches. It remains to be seen how successfully existing staff are able to cope in the new environment but additional huge investments in training and branch refurbishment as well as information technology seem almost certain.

At the same time as the Clearing Banks have been investing increased amounts in technology there has been a growth in small, specialised banks, a rather different type of innovation. The Caledonian Bank, a newcomer to the Scottish banking scene is a specialist bank predominantly serving the commercial mortgage market. The bank hopes to imitate the success of Adam & Co which has very successfully grown by providing specialist banking services in this case to higher income groups. Small specialist operations benefit from fast response times to changed conditions. Their problems are dependence on a few small markets, limited reserves for the bad times and the difficulty of achieving growth once they outgrow their market segment.

Innovation provides new products and services to compete with existing products. New competition also arises from the entry of new firms into particular markets and in this respect the Scottish Financial Sector has owed a great deal to Ivory & Sime in the last twenty years. A considerable number of personnel have left the firm to start new ventures in the financial sector and it is perhaps comforting to know that the recent departure of seven senior executives from the company follows a well trodden path. However, it is a cause for concern that a major Scottish fund management organisation should so regularly lose important personnel. There can be little doubt given the wealth of talent that has left the firm that if the energies of such personnel could have been directed more effectively into exploiting new opportunities within the Ivory & Sime umbrella, the company would be one of the major fund managers in the UK. There has never been any shortage of ideas and entrepreneurial talent. The difficulty lies in evolving an organisation and environment which enables individuals to exploit opportunities and use their talents creatively but at the same time builds up loyalty and trust between the employees and the company. Each time an explosion occurs we are reassured that this is the last. It is not clear, however, that the company is any closer to stability now than it has been in the past. It is to be hoped that new, more effective management structures are put in place. On balance, the Scottish Financial Sector would probably be better served by a fund management institutions able to effectively use its undoubted creative talent than by the creation of many new small ventures.

DISTRIBUTIVE TRADES

The latest SCBS (covering the three months to end April 1990) suggests that Scottish wholesalers enjoyed a buoyant sales performance in the early part of this year, with a net 46% of respondents reporting increased sales levels compared with the preceding three months. A net 27% of wholesalers also recorded increases in employment, with gains in both full-time and part-time jobs.

Given that, over the past year or so, realised wholesaling performance has typically exceeded the expectations of member firms (see March 1990 Commentary), it is particularly interesting to note that a large majority (net 58%) of April SCBS respondents expected further sales growth over the succeeding quarter. A smaller majority also predicted employment gains.

To the extent that the level of wholesaling activity is an indicator of aggregate demand in the economy, these SCBS results provide no evidence that government policy with respect to high interest rates is succeeding in "dampening" demand in Scotland.

The geographical distribution of May SCBS wholesale responses is given in Table 1.

On balance, sales growth was experienced in all Chamber areas. Net employment increases were also recorded in all areas except Dundee. Short term wholesale prospects, particularly in terms of sales, appeared to be good across the country.

Table 1 Geographical Responses to May SCBS Wholesaling

	G %	E %	D %	A %	All %
Overall Confidence	+11	+4	-7	+9	+7
Actual Sales	+30	+51	+85	+57	+46
Expected Sales	+20	+50	+71	+51	+58
Actual Employment	+20	+70	-7	+33	+27
Expected Employment	+18	+33	0	+15	+16
Investment Intentions	+3	+25	0	+9	+6

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

Retail sales also appear to have grown strongly in the early part of this year, with a net 62% of SCBS retail respondents reporting sales increases in the three months to April. In spite of the good sales performance, a net 25% of retailers indicated that employment had fallen over the same period. Retailers expected this combined trend of rising sales and falling employment to continue in the short-term.

Table 2 gives the geographical breakdown of May SCBS retail responses. The sales performance and prospects of Glasgow retailers were very strong, especially in comparison with Edinburgh.

These differences probably reflect "local" factors affecting retail demand in each of the two cities.

Table 2 Geographical Responses to May SCBS - Retailing

	G %	E %	D %	A %	All %
Overall Confidence	+47	-34	+20	-21	+2
Actual Sales	+81	+6	+63	+73	+62
Expected Sales	+80	+28	-2	+40	+43
Actual Employment	+8	-6	-62	+12	-25
Expected Employment	-19	-86	-38	-16	-29
Investment Intentions	+14	+1	-3	-3	+1

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

TRANSPORT

The end of the Prestwick monopoly on transatlantic flights from Scotland has had the previously anticipated results: most scheduled flights have switched to Glasgow from Prestwick and a modest increase in services has occurred, notably American Airlines' new route to Chicago. While the policy change came too late for much of this year's summer tourist trade, the introduction of a thrice-weekly British Airways service to New York beginning in August will be a further boost to Glasgow Airport.

There is increasing competition for the expected overspill from the congested London airports in the longer term. In addition to substantial development at Manchester Airport, there are now plans for a major expansion at Liverpool Airport following the agreement by British Aerospace to take a major stake. The rationale behind this move is to provide a transatlantic hub or staging post as well as a centre for aircraft overhaul. European and domestic scheduled flights continue to expand from the lowland airports. In particular, Air UK intends upgrading flights to London Stansted. However, the poor financial results from a number of operators may restrict expansion or even limit competition on some routes.

The government has announced a major investment in roads south of Edinburgh with a total value of £140m at current prices. Additionally, it is supporting the concept of a privately financed link between the M74 and the M8. Parts of this package are for the medium and long-term. Any development in environmental policy would have repercussions for the road-building programme in general over this period.

In stark contrast, the prospects for investment in Edinburgh-Aberdeen electrification have receded as the new chairman of British Rail has indicated that the financial returns would be minimal. BR are not allowed by government to take social costs and benefits into account, although this is the method by which spending on road construction is authorised. A study by the STUC indicated that, while the Edinburgh-Aberdeen electrification would only produce a 5% rate of return as against the 8% minimum required by government, if part of a larger scheme it could produce 7%. Aberdeen-Glasgow was seen as having a 10% rate of return.

British Rail are seriously considering withdrawing their Speedlink Distribution service. Since rail tends to have greater advantages over longer distances, Scotland would be damaged more than other parts of the UK by this move. One of the secondary benefits of the Channel Tunnel was expected to be the boost this could give to domestic wagon-load rail freight to and from Scotland. This looks likely to be lost if this policy is pursued.

The Town and Country Planning Association's report, 'The Channel Tunnel: the case for a railway development strategy to benefit the whole of the United Kingdom' summarises the argument for such a strategy. It identifies Section 42 of the Channel Tunnel Act, that which bans government subsidy for related infrastructure, as limiting the Tunnel's impact on regional development.

The privatisation of the Scottish Transport Group bus division has got under way, with the sale of Lowland Scottish to a management-employee buyout. A similar buyout is in preparation at Midland Scottish. Scottish Citylink is also in the sale queue. Their competitors, Caledonian Express, are being allowed to bid, though it is thought that this permission would not necessarily preclude the possibility of a Monopolies Commission referral should they be successful.

Employment in the Scottish transport and communications industry in the year to December 1989 grew by 1.7%. This is slightly faster than the figure for Great Britain as a whole.

HEALTH

An unusual period of relative peace and quite has settled on the government's NHS reforms, with no formal news yet of firm contenders for hospital trust status or GP budget holding practices. Presumably health personnel are in the throes of constructing the first sets of contracts to be brought into operation in 1991. In this regard personnel responsible for contracts ought to read the Health Service Journal of 17 May, in which a simulation exercise on contracting arrangements undertaken by the East Anglian regional health authority and the Office for Public Management came to the conclusion that the establishment of "quality outcomes" - taken to be equity, effectiveness, efficiency, access, appropriateness, and responsiveness - is "absolutely essential" if patient benefits are to be achieved.

Lothian and Glasgow Health Boards continue to make the news. Lothian announced a series of proposed cuts and changes to prevent a predicted deficit of £22.4 million, including hiving off long-term care for the elderly, a cut in the nursing budget and various unit closures at particular hospitals. Last year's £12 million deficit has been written off. The chairman and general manager of the board both resigned. Predictably, the proposals attracted instant criticism from medical and nursing spokespersons. Similar awkward decisions, but probably not on the same scale, will be required in Glasgow. One persistent argument from within the NHS, and by sympathetic newspaper columnists, is that the health service is "underfunded", thus facing health boards with difficult rationing decisions. This is countered by governmental assertions that "efficiency savings" are to be found if enough effort is made to examine the potential for changes in current service provision. The resurgence of inflation means once again that government spending decisions are thrown into sharp relief and we can expect the "underfunding" cries to be heard ever more insistently in the coming months.

Greater Glasgow Health Board has also made the national medical press. An editorial in The Lancet of 5 May relates the continuing saga of the strategic review/reorganisation - possibly including competitive tender - of the Board's laboratory services. The editorial is firmly of the view that laboratory services should be retained at district general hospitals on the grounds that laboratories are an essential part of acute care clinical services. The proposed blueprint for Glasgow's laboratory services, involving as it does the centralisation of laboratory services at the two teaching hospitals, "must not be allowed to become the norm" the editorial concludes.

One piece of good news for some patients: the first heart transplant unit for Scotland has been approved in principle an the SHHD is to seek advice from the cardiac surgery community on the most appropriate location.

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 December 1989, and those are also reported in Tables 1 and 2. Overall, total employees in employment increased by 47,000 (2.4%) in the year to December 1989. Male employees in employment rose by 17,000 (1.6%), and total female employment increased by 30,000 (3.3%). Part-time female employment rose by 9,000 (2.3%), whereas full-time female employment grew by some 21,000 or 3.9%. If part-time is interpreted as "one-third time", then full time equivalent employment rose by about 41,000 (2.4%). This employment gain is greater than previous estimates and the pick up in male and female full-time employment is encouraging relative to past experience. Six thousand of the increased employment occurred in production and construction industries, and 43,000 in services. a pattern consistent with the much greater stimulus to female employment.

Over the year to December 1989 the biggest employment gains were registered by: education

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)

		Female			Production & construc.	Production	Manufacturing	Services
	Male	All	Part-time	Total	industries	industries	industries	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]	[925]	[376]	[1,940]	[601]	[476]	[418]	[1,311]
Jun	[1,018]	[941]	[384]	[1,959]	[599]	[474]	[416]	[1,331]
Sept	[1,033]	[948]	[381]	[1,980]	[606]	[482]	[423]	[1,345]
Dec	[1,033]	[951]	[389]	[1,984]	[606]	[484]	[424]	[1,350]

Source: Department of Employment Gazette, May 1990 and earlier issues.

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]	[123]

(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]	[117]	[176]	[191]	[475]
	Dec	[191]	[193]	[117]	[177]	[194]	[477]

Source: Department of Employment Gazette

etc. (21,000); public admin. etc. (11,000); banking, insurance and finance (8,000) and retail distribution (5,000). The only employment loss of 1,000 was incurred by construction.

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	Unadjusted Total	Unadjusted
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

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

Source: Employment Department Press Notice

Vacancies: Stocks and Flows

Over the year to April 1990 unfilled vacancies at job centres in Scotland fluctuated between 20.3 (19.2) and 24.7 (25.3) thousands on a seasonally adjusted (unadjusted) basis (Table 3). However, vacancies have been higher as compared to 1988. 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 April 1990 inflows of 21.8 thousand (over 0.5 thousand more than the previous year) were nearly matched by outflows of 20.7 thousand. Accordingly, 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, of course, 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.

April 1990 saw a fall of some 0.8 thousand (0.1 percentage points) in total unemployment (of which 0.9 thousand was attributable to males whereas female employment increased by 0.1 thousand). Over the year to April 1990 total unemployment fell by about 40 thousand, from 243.3 thousand or 1.6 full percentage points. This represents a reduction in the level of unemployment of 16.4 per cent which constitutes rather good news for the Scottish labour market. Furthermore, 26,500 of the reduction occurred among males and around 12,800 among females.

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

Date	In-flow Level	In-flow Average change 3 months ended	Out-flow Level	Out-flow Average change 3 months ended	Thousands of which: Placings Level	Placings 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	21.8	0.7	20.7	0.0	17.1	-0.1

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 Jan	216.0	90.2	306.2	-2.5	-4.1	12.3
	(212.4)	(87.3)	(299.7)	(-2.6)	(-3.9)	(12.1)
Feb	213.5	89.9	303.4	-2.8	-2.8	12.2
	(209.7)	(86.9)	(296.6)	(-3.1)	(-3.7)	(11.9)
Mar	211.6	88.5	300.1	-3.3	-3.4	12.1
	(207.7)	(85.6)	(293.3)	(-3.3)	(-3.4)	(11.8)
Apr	208.8	86.5	294.9	-5.2	-3.4	11.9
	(204.6)	(83.8)	(288.4)	(-4.9)	(-3.5)	(11.6)
May	206.0	85.1	291.1	-3.8	-3.4	11.7
	(202.5)	(82.3)	(284.8)	(-3.6)	(-3.4)	(11.5)
Jun	202.5	83.4	285.9	-5.2	-3.8	11.5
	(199.0)	(80.7)	(279.7)	(-5.1)	(-3.8)	(11.3)
Jul	199.3	82.7	282.0	-3.9	-4.0	11.4
	(196.0)	(79.9)	(275.9)	(-3.8)	(-4.0)	(11.1)
Aug	197.5	82.1	279.6	-2.4	-4.0	11.3
	(194.3)	(79.1)	(273.4)	(-2.5)	(-3.9)	(11.0)
Sept	201.0	82.1	283.1	3.5	-2.8	11.4
	(194.2)	(78.1)	(272.3)	(-1.1)	(-3.5)	(11.0)
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(r)	149.5	55.3	204.8	(-1.6)	(-3.3)	(8.2)
Apr(p)	148.6	55.4	204.0	(-0.8)	(-2.6)	(8.1)

Source: Department of Employment

Table 6 presents recent flows into and out of the unemployment stock. In April 1990 inflows were at 29.7 thousand, about 0.8 thousand less than in the same month of 1988, although outflows were, at 33.3 thousand, 5,600 less than in January 1989. Although gross outflows in January were rather low by recent standards, if they were maintained the unemployment stocks of 204,000 would turnover in just over 6 months.

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

* The September figures are biased by the postal strike.

Scottish Industrial Relations

The industrial relations agenda in Scotland continues to be dominated by events in the public, or recently public sector and by developments in England.

The recent announcement by the BBC of some 200 redundancies in Scotland was not unexpected. More than a year ago the Government had indicated a wish to see a greater use being made of casual and contract staff and a reduction in in-house programme generation. However, of concern is the wider "shake out" of management staff in a number of enterprises. Any move towards a more widespread reduction in such employment in Scotland could have longer term implications, as it will further encourage qualified labour to move south.

The public sector continues to be one of the key industrial relations areas. Developments within education pose a number of employee relations and labour market concerns. Firstly, the EIS has indicated a preparedness to boycott the proposals for testing within primary schools. Underlying this is the more general concern as to the intensification of effort that has been introduced by a series of developments in education. Secondly, fears are increasingly evident as to the consequences of the introduction of Local Management of Schools in Scotland. More than a year ago we noted the likelihood of employment issues confronting schools given plans for the devolution of financial responsibilities, and speculated on the problems confronting schools where the average age of teachers was above the national average. In England the criteria for determining the funds for LMS have now led to a number of redundancies of staff, despite shortages in these subject areas, and to uncertainty as how to cover for teachers absent through sickness. Thirdly, the growing concern as to the under-resourcing of current changes to curricula is contributing to a lowering of morale. Fifthly, concern has been voiced as to a number of proposals for the development of the careers service. It is questionable as to whether the same quality and independence of advice will be available to young people if the service is privatised, and run by the LECs or other bodies. Or if the suggestions to reduce the educational qualifications of careers staffs are adopted.

Regional Review

Introduction

In the last section, **The Labour Market**, 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. The purpose of this **Regional Review** is to examine sub-Scottish movements in the unemployment situation and to highlight the inter-regional variations which have occurred. Intra-regional disparities are also considered.

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 sub-Scottish calculations. These are based on an incomplete definition of the workforce which includes 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 incorporate all of the above components and is thus 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 analysed.

Time-Series Analysis

It has already mentioned that the data used in this section has not been adjusted to take account of seasonal factors. When comparing the unemployment situation in April 1990 with that which prevailed at the same time last year, this is not problematic. However, it is desirable to look at movements which have occurred within periods of less than one year. By looking at a time series of unadjusted unemployment totals a picture of the seasonal troughs and peaks in unemployment should emerge. Consequently it should be possible to separate out seasonal swings in unemployment from underlying trends. Information on the unemployment situation in Scotland for the twelve months to April 1990 is presented in Table 1.

Over the year, the workforce-based unemployment rate has fallen from 9.8% to 8.2% but this decline has not been steady and continuous. The most substantial decreases occurred between April and May and August and September with the rate falling by 0.4%. Drops of 0.3% were recorded between May and June and September and October. However, in contrast to this, increases in the proportion of the workforce out of work occurred between June and July (+0.2%). This suggests that there are seasonal influences between April and June and August and October resulting in falls in unemployment. Increases between June and July and November and January may also be attributed to seasonality.

Table 1 also indicates the proportional change in unemployment totals between each month. Not surprisingly, these changes broadly mirror the same pattern as that for movements in unemployment rates. The greatest reductions in monthly totals occurred in May and September when falls of 4.3% were noted. Increases were recorded in July, December and January: 1.8%, 0.6% and 3.0% respectively. The increase in unemployment rates between both June and July and December and January was 0.2% yet in the former time period the proportional increase in monthly unemployment is much less than during the latter time span. This apparent discrepancy reflects the fact that the unemployment rate is an expression of both the level of unemployment and the workforce. Between June and July the workforce fell from 2,507,593 to 2,498,409 whilst between December and January it rose from 2,504,247 to 2,519,264. If the workforce increases then the denominator of the expression unemployment/workforce (= unemployment rate) increases and even if the unemployment level were to remain the same then the unemployment rate would fall. Whilst the trend in unemployment totals is clearly downwards the percentage change

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 Apr	9.8	245,636	-3.8	178,022	-3.4	67,614	-4.9
May	9.4	235,154	-4.3	171,229	-3.8	63,925	-5.4
Jun	9.1	228,191	-3.0	166,056	-3.0	62,135	-2.8
Jul	9.3	232,352	+1.8	165,646	-0.2	66,706	+7.4
Aug	9.2	229,914	-1.0	163,495	-1.3	66,419	-0.4
Sep	8.8	219,943	-4.3	158,683	-0.3	61,260	-7.8
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

Source: Department of Employment

in monthly totals between March and April of this year was 2% compared with 3.8% last year, a possible indication that the pace of change may be slackening.

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. Overall the biggest falls in total unemployment occurred between April and May and August and September with falls of 4.3%. In those periods, male unemployment fell by 3.8% and 0.3% contrasting with changes of -5.4% and -7.8% in the female unemployment totals. Between June and July there was a proportional increase in total unemployment of 1.8%. Male unemployment witnessed a modest decrease (-0.2%) in that period whilst 7.4% more females were unemployed. This is evidence that females participate in seasonal employment to a greater degree than their male counterparts. For both male and female unemployment the change in monthly totals between March and April last year is greater than that for the same period this year again indicating a possible slowing down in the rate of decrease of unemployment.

Total Unemployment

Table 2 shows for each local authority region and island, and Scotland as a whole, the narrow and wide unemployment rate, the numbers unemployed in April 1989 and 1990 and the change which has taken place over these twelve months. Quarterly and monthly changes are also shown 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 April 1990, total unemployment in Scotland fell by 39,732, a drop of 16.2% to stand at 205,904. There has been a further decline in the unemployment rate over the twelve months from 9.8% to 8.2% and the narrow rate of 9.4% compares favourably with the 10% noted in the last Commentary. There has been a 6.1% decrease in the numbers unemployed between January and April, a fall of 13,272. The monthly change is also negative with 4,198 fewer people out of work in April compared with March of this year. This represented a 2% reduction in unemployment totals

and effected a 0.2% cut in the unemployment rate. Last issue it was suggested that since monthly increases in unemployment had been experienced throughout Scotland, it may be the case that the underlying trend is one of increasing unemployment. However, after further analysis it would seem that much of this increase is attributable to students entering onto the unemployment register during the winter vacation. Thus, the trend would appear to be one of decreasing unemployment.

As can be seen from Table 2, there were declines in the unemployment totals in all local authority areas. The most substantial decrease was experienced in the Orkney Islands with Grampian closely behind with respective falls of 28.8% and 26.2%. Significant decreases were also noted in the Western Isles (19.6%), Fife (18.2%), Lothian (18.0%) and Highland (17.9%). In fact, only four authorities had proportional changes smaller than the 16.2% Scottish average. Strathclyde and Tayside witnessed falls of 15.0% and 14.8% which was only marginally better than Central's 11.5% reduction. Borders Region only experienced a 7.1% drop in unemployment over the year to April 1990 which is less than the change seen over the last quarter and even the previous month. At the time of the last **Commentary**, Borders had the smallest reduction in annual unemployment totals. Taken together these observations suggest that the labour market in this area fluctuates more than the norm and that unemployment is not decreasing as quickly in the Borders as it is elsewhere in Scotland. However, the Borders has a comparatively low unemployment rate which may in part explain the slower rate of decline.

The changes in sub-Scottish unemployment totals reveal considerable disparities in the fortunes of the local labour markets. Analysis of the unemployment rates confirms this observation. The variation is greatest within the Island areas with the unemployment rate in the Western Isles, more than 2.5 times that of Shetland and double that in Orkney (using the workforce based rates). Strathclyde is the local authority area with the highest unemployment rate with 10.5% of the workforce unable to find work. With the exception of the Western Isles, the only other authorities recording unemployment rates above the 8.2% Scottish average were Central (8.9%) and Fife (8.7%). At the opposite end of the scale, on the mainland Grampian was the region with the lowest percentage of its workforce unable to find work with a wide unemployment rate of 3.7%. This was only surpassed in the Shetland Islands where the rate was 3.6% but in fact this was a 0.2% increase on the 3.4% reported in the last **Commentary**. This does however reflect decreases in the workforce in that period rather than increases in unemployment. Notably low unemployment rates were also noted in the Borders (4.3%), the Orkney Islands (4.7%), Dumfries and Galloway (6.2%) and Lothian (6.3%).

Analysis of the narrow-based sub-Scottish unemployment rates reveals a similar picture. The Western Isles and Strathclyde have particularly high rates of 12.3% and 11.9% but levels above the Scottish 9.4% average were again seen in Central (10.3%) and Fife (10.0%). Grampian has the lowest rate at 4.2% closely followed by Shetland with 4.5% unemployment. The differential between the wide and the narrow rate is greatest in the Western Isles where 2.8% separates them. In Orkney the difference is 1.9% and in the Highlands and Dumfries & Galloway, 1.6%. The primary difference between the two rates is the numbers in each area who are self-employed, in HM Forces or on government-related training programmes. The aforementioned authorities are all rural and thus the bigger gaps are likely to reflect the concentration of agricultural and fishing activity characteristics to rural Scotland the 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 employment and hence increased participation in government-related training programmes which are only included in wider counts of the workforce. The converse arguments explains the small differential in Grampian (0.5%) an area of low unemployment and to a lesser degree, the Shetland Islands (0.9%) and the Borders (1.0%).

In the three months to April 1990, there was a decrease in unemployment totals throughout but considerable disparities in the extent of these movements is evident. The greatest proportional reduction was experienced in the Western Isles where there was a quarterly change of -19.4% which is only marginally less than the change which occurred in the year to April indicating the seasonal nature of the labour market in this Island. The other island authorities also witnessed substantial decreases with 11.6% and 11.3% respectively noted in Orkney and Shetland. Highland and the Borders saw substantial quarterly changes of 14.1% and 11.8% again a reflection of the more seasonal nature of employment patterns in

Table 2: Unemployment by Region

	% rate Apr 90		Total Apr 90	Total Apr 89	Total Annual Change	% Change in Annual Totals	Total Jan 90	Total Quarterly Change	% Change in Quarterly Totals	Total Mar 90	Total Monthly Change	% Change in Monthly Totals
	Narrow	Wide										
Borders	5.3	4.3	2145	2308	-163	-7.1	2432	-287	-11.8	2314	-169	-7.3
Central	10.3	8.9	10700	12089	-1389	-11.5	10956	-256	-2.3	10590	+110	+1.0
Dumfries & Galloway	7.8	6.2	4448	5332	-884	-16.6	4933	-485	-9.8	4803	-355	-7.4
Fife	10.0	8.7	12697	15530	-2833	-18.2	13415	-718	-5.4	12852	-155	-1.2
Grampian	4.2	3.7	10091	13672	-3581	-26.2	11296	-1205	-10.7	10715	-624	-5.8
Highland	9.2	7.6	7637	9300	-1663	-17.9	8892	-1255	-14.1	7988	-351	-4.4
Lothian	7.0	6.3	25742	31393	-5651	-18.0	27037	-1295	-4.8	26238	-496	-1.9
Strathclyde	11.9	10.5	115680	136134	-20454	-15.0	122328	-6648	-5.4	117502	-1822	-1.6
Tayside	8.5	7.4	14525	17041	-2516	-14.8	15317	-792	-5.2	14830	-305	-2.1
Orkney Is.	6.6	4.7	459	645	-186	-28.8	519	-60	-11.6	500	-41	-8.2
Shetland Is.	4.5	3.6	463	553	-90	-16.3	416	-47	-11.3	419	+44	+10.5
Western Is.	12.3	9.5	1317	1639	-322	-19.6	1635	-318	-19.4	1351	-34	-2.5
Scotland	9.4	8.2	205904	245636	-39732	-16.2	219176	-13272	-6.1	210102	-4198	-2.0

Source: Department of Employment

rural areas. At the other end of the scale, Central recorded the lowest quarterly decrease with only 2.3% fewer people unemployed in April compared with January this year. Changes of less than the 6.1% norm for Scotland were noted for Lothian (-4.8%), Tayside (-5.2%), Strathclyde (-5.4%) and Fife (-5.4%).

Variation is also apparent in the monthly changes ranging from an 8.2% decrease in Orkney to a 10.5% increase in Shetland. The only other authority witnessing an increase in unemployment was Central but the increase of 110 in total represented a more modest 1% change. Substantial decreases in unemployment totals between March and April were evident in Dumfries and Galloway (7.4%), the Borders (7.3%) and Grampian (5.8%).

It is clear from the analysis of sub-Scottish data that the trend is one of decreasing unemployment but the scale of change varies significantly between authorities.

Male Unemployment

As can be seen in Table 3, in the twelve months to April, male unemployment in Scotland fell by 27,045 to stand at 150,977. This 15.2% drop has led to a further reduction in the male unemployment rate. The narrow rate stands at 12.7% which is only a modest improvement on the 13% reported last Commentary. Using the workforce-based measure however, the rate is 10.5% compared with January's 11.1%. Decreasing male unemployment is evident for the quarterly and monthly changes. Between January and April, male unemployment fell by 8,903 (5.6%) and in the month following March the drop was 2,834 (1.8%).

All authorities experienced a decline in male unemployment with the percentage change greatest in Orkney with 25.6% fewer males unemployed in April this year compared with April last. In number terms however, this represents a drop of only 115 males. On the mainland, Grampian fared best with a fall of 25.2%, but above average decreases were also experienced in Lothian (16.8%), Fife (16.17%) and Highlands (15.9%). The Borders witnessed the smallest reduction with only a 6.1% drop in male unemployment totals over the year.

Despite a 14.3% drop in male unemployment, Strathclyde remains the local authority area with the highest unemployment rate with 13.7% of the male workforce unable to secure employment. Comparatively high unemployment rates are also evident in the Western Isles, Central Region and Fife where the rates are 11.7%, 11.1% and 11.0% respectively. Contrastingly, exceptionally low rates were noted for Shetland Isles (4.0%), Grampian (4.2%) and the Borders (5.1%). A similar pattern exists for the narrow-based measure of unemployment except that the Western Isles has the highest unemployment rate and Grampian the lowest.

With the exception of Shetland, decreases in unemployment during the quarter to April 1990 were experienced everywhere. The most substantial fall occurred in the Western Isles with a drop of 20.6%. Falls in excess of 9% were recorded in the Borders (11.5%), Grampian(10.9%), Orkney Island (9.9%) and Highland (9.7%). Of the mainland regions, Central (4.0%), Lothian (4.1%) and Fife (4.5%) witnessed the smallest reductions. In Shetland, there was a 15.6% increase in quarterly male unemployment but in number terms this is only an increase of 42. The result however is that the male unemployment rate (wide measure) rose from 3.5% in January top 4.0% in April making Shetland the only local authority area to experience an increase in rates.

In terms of monthly changes, Shetland was the only area experiencing a substantial increase in unemployment with a proportional change of +13.9%. A modest increase of 1.1% is evident for Highland but all other areas witnessed reduction. Both the Borders and Orkney Islands recorded reductions of 6.8% and Dumfries and Galloway was not far behind with a fall of 5.6%. Central saw only a negligible reduction on male unemployment totals of 0.7%.

Female Unemployment

Over the past year, female unemployment fell by 12,687 to stand at 54,927 or 5.1% of the total female workforce (5.5% of the narrowly defined workforce) which continues to be well below the overall unemployment rate for Scotland. There were also reductions in the quarterly and monthly female unemployment totals with proportional changes of -7.4% and -2.4% as indicated in Table 4.

In all areas, there were declines in female unemployment over the twelve months to April of this year. Orkney experienced the most substantial of these with a drop of 33.3% in

Table 3: Male Unemployment by Region

	% rate Apr 90 Narrow	% rate Apr 90 Wide	Total Apr 90	Total Apr 89	Total Annual Change	% Change in Annual Totals	Total Jan 90	Total Quarterly Change	% Change in Quarterly Totals	Total Mar 90	Total Monthly Change	% Change in Monthly Totals
Borders	6.8	5.1	1482	1579	-97	-6.1	1674	-192	-11.5	1590	-108	-6.8
Central	13.4	11.1	7456	8353	-897	-10.7	7765	-309	-4.0	7510	-54	-0.7
Dumfries & Galloway	9.5	6.9	2933	3446	-513	-14.9	3190	-257	-8.1	3138	-205	-6.5
Fife	13.3	11.0	9041	10782	-1741	-16.1	9465	-424	-4.5	9197	-156	-1.7
Grampian	5.1	4.2	6846	9151	-2305	-25.2	7683	-837	-10.9	7250	-404	-5.6
Highland	12.0	9.2	5378	6395	-1017	-15.9	5957	-579	-9.7	5320	+58	+1.1
Lothian	10.0	8.5	19113	22971	-3858	-16.8	19934	-821	-4.1	19398	-285	-1.5
Strathclyde	16.3	13.7	86983	101547	-14564	-14.3	91656	-4673	-5.1	88427	-1444	-1.6
Tayside	11.2	9.1	10121	11781	-1660	-14.1	10681	-560	-5.2	10354	-224	-2.2
Orkney Is.	8.8	5.5	317	432	-115	-26.6	352	-35	-9.9	340	-23	-6.8
Shetland Is.	5.4	4.0	311	352	-41	-11.6	269	+42	+15.6	273	+38	+13.9
Western Is.	17.3	11.7	996	1233	-237	-19.2	1254	-258	-20.6	1014	-18	-1.8
Scotland	12.7	10.5	150977	178022	-27045	-15.2	159880	-8903	-5.6	153811	-2834	-1.8

Source: Department of Employment

female unemployment. The other island authorities also performed well with proportional reductions of 24.4% (Shetland) and 20.9% (the Western Isles). Grampian Region proportionately had the biggest reduction of the mainland authorities with a fall of 28.2% but decreases in excess of the 18.8% reduction average for Scotland were also noted for Fife (23.0%), Highland (22.2%), Lothian (21.3%) and Dumfries and Galloway (19.7%). Although the reduction in female unemployment in the Borders was greater than that seen for males, at 9.1%, it was still well-below average. Central, Tayside and Strathclyde with respective drops of 13.2%, 16.3% and 17.0% were also below average.

Analysis of the changes in female unemployment total over the last three months reveals a different pattern from the changes in male labour force. Shetland witnessed an increase in female as well as male unemployment although the magnitude of the change was much less (3.4% against 15.6%). Central witnessed an increase in female unemployment of 1.7% against a male reduction of 4%. Highland witnessed the most substantial decrease with some 23% fewer females unemployed in April compared with January. In Tayside only a modest reduction of 5% in levels of female unemployment occurred comparing poorly with the 7.4% average for Scotland. Only in the Western Isles and Grampian however was the proportional change in female unemployment of a smaller order than the shifts in male unemployment.

Movements in female unemployment between March and April display great variation across Scotland. Shetland (+4.1%) and Central (+5.3%) continue to exhibit increases but there was a negligible increase in Fife. Of the authorities experiencing reductions these ranged from 15.3% in Highland and 11.3% in Orkney to 1.6% in Tayside and 1.3% in Strathclyde. The greater disparity evident in the female labour market, particularly the short-term fluctuations revealed by the quarterly and monthly analysis, again suggests that female employment is subject to more seasonal influences than that witnessed by the male labour force.

The differential between the wide and the 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. Using the workforce-based rate, unemployment is lowest in Grampian where only 2.9% of females are out of work. However, Shetland (3.1%), the Borders (3.2%), Lothian (3.6%) and Orkney (3.6%) also exhibit low rates. The highest female unemployment rate is to be found in Central at 6.2% but Strathclyde is only marginally behind with a rate of 6.1%.

Comparing male and female unemployment levels there would appear to be less of a problem amongst the latter group. However, the analysis is confined to recorded or notified unemployment. It is quite likely that there are many females at home who are not counted as unemployed but who would enter into the labour market should a job be available. Thus the figures are skewed preventing strict comparison between the two groups.

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 deal with openings for over 18s whilst Career Offices deal with 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, a separate vacancy count has been introduced in this **Commentary** which excludes vacancies notified to Careers Offices. This should allow for the calculations 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 hence may be included in more than one vacancy count. There is likely thus 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 April 1990 in Scotland, there were 24,481 notified vacancies of which 1,487 were openings for young persons under 18. In total, there was a 10.5% increase in the level of vacancies in Scotland. There was however a 17.1% increase between January and April suggesting that earlier in the twelve months there were decreases in vacancy levels.

Table 4: Female Unemployment by Region

	% rate Apr 90 Narrow	% rate Apr 90 Wide	Total Apr 90	Total Apr 89	Total Annual Change	% Change in Annual Totals	Total Jan 90	Total Quarterly Change	% Change in Quarterly Totals	Total Mar 90	Total Monthly Change	% Change in Monthly Totals
Borders	3.5	3.2	663	729	-66	-9.1	758	-95	-12.5	724	-61	-8.4
Central	6.7	6.2	3244	3736	-492	-13.2	3191	+53	+1.7	3080	+164	+5.3
Dumfries & Galloway	5.8	5.2	1515	1886	-371	-19.7	1743	-228	-13.1	1665	-150	-9.0
Fife	6.2	5.7	3656	4748	-1092	-23.0	3950	-294	-7.4	3655	+1	-
Grampian	3.1	2.9	3245	4521	-1276	-28.2	3613	-368	-10.2	3465	-220	-6.3
Highland	5.9	5.3	2259	2905	-646	-22.2	2935	-676	-23.0	2668	-409	-15.3
Lothian	3.8	3.6	6629	8422	-1793	-21.3	7103	-474	-6.7	6840	-211	-3.1
Strathclyde	6.5	6.1	28697	34587	-5890	-17.0	30672	-1975	-6.4	29075	-378	-1.3
Tayside	5.5	5.2	4404	5260	-856	-16.3	4636	-232	-5.0	4476	-72	-1.6
Orkney Is.	4.2	3.6	142	213	-71	-33.3	167	-25	-15.0	160	-18	-11.3
Shetland Is.	3.3	3.1	152	201	-49	-24.4	147	+5	+3.4	146	+6	+4.1
Western Is.	6.5	5.9	321	406	-85	-20.9	381	-60	-15.7	337	-16	-4.7
Scotland	5.5	5.1	54927	67614	-12687	-18.8	59296	-4369	-7.4	56291	-1364	-2.4

Source: Department of Employment

Table 5: **Registered Vacancies by Region**

	April 1990 Exc. C.O.s*	Total	Total Jan 90	Quarterly Change %	Total Apr 89	Annual Change %
Borders	588	611	430	+42.1	522	+17.0
Central	1262	1278	1268	+0.1	1117	+14.4
Dumfries & Galloway	592	601	435	+38.2	659	-8.8
Fife	1075	1098	912	+20.4	949	+15.7
Grampian	3748	3910	3283	+19.1	2658	+47.1
Highland	1627	1643	947	+73.5	1,259	+30.5
Lothian	3015	3487	2591	+34.6	3084	+13.1
Strathclyde	9712	10402	9737	+6.8	9318	+11.6
Tayside	1104	1144	1130	+1.2	947	+20.8
Orkney Is.	79	98	66	+48.5	105	-6.7
Shetland Is.	62	79	65	+21.5	97	-18.6
Western Is.	130	130	46	+182.6	97	+34.0
Scotland	22994	24481	20910	+17.1	20812	+10.5

* Excluding vacancies notified to Careers Offices

Source: Department of Employment

Three authorities had decreases in their vacancy levels between April 1989 and 1990. In the Shetland Islands, the level of vacancies decreased by 18.6% whilst the reduction in Orkney was 6.7%. This is in stark contrast to the Western Isles where the increase in vacancy levels (+34%) was the greatest of all the authorities with the exception of Grampian which saw an annual change of 47.1%. Dumfries and Galloway witnessed an 8.8% reduction in vacancy levels. In the quarter following January 1990, all authorities saw their vacancy levels rise although in Central (0.1%) and Tayside (1.2%) the changes were minimal. In the Western Isles, the level of vacancies increased from 46 to 130 an increase of some 182.6%. Highland also witnessed a substantial improvement in its vacancy level with an increase of 73.5%.

By relating the level of vacancies to the level of unemployment, a broad indication of the numbers 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 vacancy, the real unemployment/vacancy ratio will be lower than is 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 April 1990, the U/V ratio excluding vacancies notified to Careers Offices was 8.95 and including the latter component 8.41. Within Scotland the ratio is lowest in Grampian where there are 2.58 unemployed people per vacancy. Low ratios are also evident in the Borders (3.51), Highland (4.65) and Orkney (4.68). The ratio is greatest in Tayside (12.70) but Fife (11.56) and Strathclyde (11.12) are only a little lower. Comparing the U/V ratios of April this year with those of a year and a quarter ago, there have been reductions throughout except in Shetland where there has been a modest increase from 5.7 to 5.86. This is a reflection of both an increase in unemployment and a fall in vacancy levels.

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

	April 1990 Exc. C.O.s*	Inc. C.O.s*	Jan 1990	Apr 1989
Borders	3.65	3.51	5.7	4.4
Central	8.48	8.37	8.6	10.8
Dumfries & Galloway	7.51	7.40	11.3	8.1
Fife	11.81	11.56	14.7	16.3
Grampian	2.69	2.58	3.4	5.1
Highland	4.69	4.65	9.4	7.4
Lothian	8.54	7.38	10.4	10.2
Strathclyde	11.91	11.12	12.6	14.6
Tayside	13.16	12.70	13.6	18.0
Orkney Is.	5.81	4.68	7.9	6.1
Shetland Is.	7.47	5.86	6.4	5.7
Western Is.	10.13	10.13	35.5	16.9
Scotland	8.95	8.41	10.5	11.8

* 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 authorities 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 area for which unemployment rates are calculated and 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 tables 7 and 8.

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 average. If the majority of a region's TTWA have unemployment rates above the Scottish average then this is an indication of a general high unemployment area such as in Strathclyde. The converse also holds true and the Borders and Grampian are useful for illustrating such an instance. In the Borders for example, none of the TTWAs have unemployment levels in excess of the average for Scotland.

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

	No. of TTWAs	No. above Scottish Average	No. above Regional Average
Borders	5	0 (0)	3 (3)
Central	3	2 (2)	1 (1)
Dumfries & Galloway	7	3 (3)	4 (3)
Fife	3	2 (2)	1 (1)
Grampian	9	1 (1)	8 (8)
Highland	8	5 (5)	5 (5)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	9 (9)	6 (4)
Tayside	7	2 (2)	2 (2)
Scotland	57	25 (25)	31 (28)

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

Source: Department of Employment

Comparing the unemployment rates in TTWAs with the regional averages 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 serves well to illustrate this case with all but one of its TTWAs having rates in excess of the 3.7% regional average. It is the large, low-rate TTWA,

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 to be found in each region as indicated in Table 8. It is possible to calculate the range of rates witnessed in each region and the ratio of the highest to the lowest rate.

Dumfries and Galloway continues to be the region exhibiting the biggest range in rates with the unemployment rate in Cumnock and Sanquhar some 11.2% more than in Dumfries. This is slightly higher than the 11% reported last quarter but Central, Fife and Tayside also noted increases. The range is smallest in the Borders where only 2.8% separates unemployment in Peebles and Galashiels.

The ratio of high to low unemployment rates is greatest on Grampian where unemployment in Forres is 3.58 times greater than the rate in Aberdeen. A high ratio is also evident in Dumfries and Galloway where it is 3.0. Central continues to display the lowest ratio where it is 1.65 but this is an increase on last quarter's 1.59.

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

		Unemployment Rates+		High - Low+		High/Low+	
Borders	H Peebles	6.3	(7.0)	2.8	(3.2)	1.80	(1.84)
	L Galashiels	3.5	(3.8)				
Central	H Alloa	11.7	(11.9)	4.6	(4.4)	1.65	(1.59)
	L Stirling	7.1	(7.5)				
Dumfries & G/way	H Cumnock/Sanquhar	16.6	(16.6)	11.2	(11.0)	3.07	(2.96)
	L Dumfries	5.4	(5.6)				
Fife	H Kirkcaldy	9.9	(10.3)	4.6	(4.5)	1.87	(1.78)
	L North East Fife	5.3	(5.8)				
Grampian	H Forres	11.1	(11.9)	8.0	(8.6)	3.58	(3.61)
	L Aberdeen	3.1	(3.3)				
Highland	H Sutherland	11.7	(13.2)	5.4	(5.9)	1.86	(1.81)
	L Inverness	6.3	(7.3)				
Lothian	H Bathgate	9.4	(9.7)	4.4	(4.4)	1.88	(1.83)
	L Haddington	5.0	(5.3)				
Strathclyde	H Greenock	13.5	(14.2)	7.3	(7.3)	2.18	(2.06)
	L Oban	6.2	(6.9)				
Tayside	H Arbroath	8.9	(9.3)	4.1	(3.6)	1.85	(1.63)
	L Crieff	4.8	(5.7)				

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

Source: Department of Employment