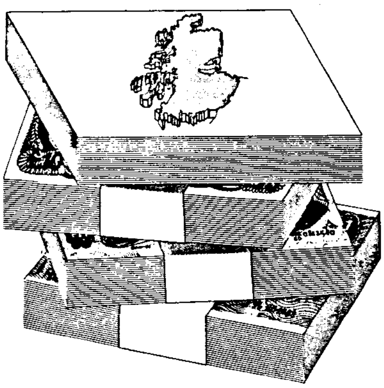
The Scottish Economy

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 the results being derived from the responses of the Chambers of Commerce and CBI members. There are, however, differences between them, namely: the SCBS provides a geographical breakdown, whereas the CBI provides information on trends by size of firm; the CBI provides data on sectoral employment patterns, whilst the SCBS distinguishes between male and female and full-time and part-time employment; 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 Surveys took place against a background of rising interest rates, relatively strong sterling and a large balance of payments deficit; despite which, retail sales continued to increase.

SCBS

Respondents to the SCBS remain pessimistic in their outlook although admittedly not as pessimistic as in the November Survey. The pessimism is evident in all sectors with the balances of optimism all remaining negative. The effects of recent events in the economy are difficult to ascertain. To the extent that increases in interest rates are likely to adversely affect potential investors, then this could have dire consequences for Scottish manufacturing activity. Also, an indirect threat to potential new investment could be increased wage pressure, induced by increases in the rate of inflation. If the growth in earnings fails to be matched by productivity advances then this could erode profits over the short-run thus leading to a contraction in planned investment projects.

The apparent pessimism of Scottish manufacturers does not seem to reflect actual or expected trends in orders or sales. The trend in the balance for orders and sales improved over the last quarter. The balance of new orders rose from +6% to +13%, and the trend in the balance of the volume of sales rose from +1% to +35%. This was largely accounted for by an increase in orders and sales to the rest of the UK (i.e. not Scotland) from -1% to +5% and -2% to +10% respectively. Export markets continued to represent the strongest trend with respect to orders and sales.

Optimism in the Scottish manufacturing sector varies significantly between Chamber of Commerce areas, with Aberdeen representing the most optimistic area with a balance of optimism figure of +27%. Glasgow proved to be the most pessimistic area with an optimism figure of -11%. Reported investment intentions broadly reflect regional divergences with Aberdeen having the most positive trend with respect to investment in plant and equipment. Dundee however showed a marked decrease in investment intentions and reported the most negative trend at -14% for plant and equipment. The Dundee economy is perhaps not performing as badly as a casual inspection of respondents general business confidence would appear to indicate. Both actual and expected orders and sales continue to show signs of strong growth as does employment. The good performance in Aberdeen is largely attributable to the continued recovery of the oil industry, in which "business situation optimism" is +52%.

The Scottish construction industry, according to the SCBS, remains in a relatively depressed state with a balance of optimism figure of -3%, compared to -23% in the November SCBS. The pessimism is not uniform however, as Aberdeen's balance of optimism figure was +75%. The trend in orders for all sectors was positive, including orders from central government sources. The trend in the levels of employment was also positive for both manual and non-manual labour. Regionally, a net of firms in Dundee are expecting a decline in orders from central government and private sources, whereas a balance of -4% of Glasgow respondents are expecting a decline in other public sector orders. The factor most likely to limit output in the Scottish construction industry was orders or sales, mentioned by 41% of firms. A shortage of skilled labour was the second most important factor with 29% of firms giving this reason. A shortage of skilled labour was the factor most likely to limit output in Aberdeen, Dundee and Edinburgh.

Optimism in the Scottish retailing sector recovered slightly in the February SCBS, although it still remains pessimistic with a balance of -18%. Sales are still buoyant, with a net of +66% of firms reporting an increase in retail sales, this corresponds to figures indicating that high interest rates policies are failing to discourage retail spending. Employment rose for a net of +3% of retail respondents, but prospects are poor with a net of -26% of firms expecting total employment to fall. Regionally, Aberdeen and Glasgow showed definite signs of optimism with general business situation optimism figures standing at +10% and +25% respectively. Dundee and Edinburgh retailing firms returned balances of -57% and -42%.

The prognosis for Scottish wholesaling activity is slightly different with Aberdeen and Edinburgh being optimistic and Dundee and Glasgow being pessimistic. The balance of optimism for all four chambers was -3% compared to -38% in the November SCBS. As with the retail distribution sector, the volume of sales was strongly positive with a balance of +46% of firms reporting increases in the level of sales; this was true for all areas. Employment rose for a balance of retail respondents during the course of the Survey. A balance of +17% of respondents reported a rise in total employment, +20% in full-time employment and +8% in part-time employment. During the current quarter, total and full-time employment are expected to increase for a balance of respondents, part-time employment however, is expected to fall for a net of -14% of firms. Employment prospects for Glasgow wholesalers are especially pessimistic with a net of -40% of firms forecasting a drop in total employment levels.

In the last quarter, Scottish financial institutions report that they increased their advances to both the corporate and personal sectors. During the current quarter however, advances to the personal sector are expected to decline and advances to the corporate sector are expected to rise less quickly. Presumably, these expectations reflect recent interest rates increases during the past months. To the extent that the expectations of Scottish financial institutions are validated, there is, of course, likely to be knock on effects on both consumer and investment demands; although this trend will not become apparent for several months. Actual investment appears to be fairly buoyant with a net of +79% of financial institutions reporting increased demand for credit from manufacturing companies. The corresponding figures for the distributive trades, other services and construction sectors were +23%, +59% and +25% respectively. Unfortunately, however, much of this credit appears to be being demanded for working capital, suggesting long or medium term investment is suffering. However, there was an improvement in the demand for credit for buildings and plant and machinery.

CBI Industrial Trends Survey

Business confidence about the prospects for Scottish industry declined for the fourth Survey in succession. Respondents were, on balance, less optimistic about the general business situation than was the case four months ago. In the October Survey the balance of optimism was -32+, compared to -11% in the January Survey. The Survey showed all sizes of firms and all sectors except for 'textiles', 'chemicals', 'food, drink and tobacco' and ' metals and metal manufacture' being less optimistic in January than was the case in the October Survey.

No growth in the volume of total new orders was recorded during the four months to December. Although small firms did report an improvement in the growth of new orders, while medium and large firms reported falling demand. Sectorally, 'textiles' and 'food, drink and tobacco' reported an increase in the total new orders over the past four months.

Output growth picked up since the previous Survey, despite the expectation of a decline from the

October Survey. A balance of +14% of respondents reported an increase in the volume of output. The previous balance was 0. The chemicals sector reported a distinct improvement over the four months to December while 'metal and metal manufacture', 'textiles' and 'other manufacturing' indicated a fall in output levels. Despite this increase in output in relation to demand, stocks of finished goods declined.

The main constraint on output is still a shortage of orders or sales with -77% of respondents citing this factor. Plant capacity remained the second most cited constraint to output, being mentioned by +25% of firms. A shortage of skilled labour was cited by +18% of respondents, up from +12% in October.

The degree of spare capacity increased between October and December with the result that fixed capacity is on balance more than adequate to meet expected demand. The proportion of respondents reporting levels of output below capacity rose from -43% to +45%. 'Metals and metal manufacture' and 'other manufacturing' reported the most significant increases in spare capacity.

For the fourth Survey in succession, investment intentions have been revised downwards on plant and machinery, partly reflecting lower capacity utilisation and expectations of no demand growth. Increasing efficiency continues to be the most frequently cited reason for authorisation of capital expenditure, with +78% of respondents giving this reason. Expansion of capacity was cited by +36% of respondents and replacement by +46% of respondents.

An inadequate net return on investment remains the most important factor to limit the authorisation of capital expenditure for +49% of respondents. +45% of firms cited uncertainty about demand, up from +34% in the October Survey. The third most frequently cited factor was likely to limit investment over the next twelve months is a shortage of internal finance with +13% of firms mentioning this.

Despite October's expectation of a decline in employment levels, employment in Scottish manufacturing firms rose for a balance of +2% of respondents during the four months to December. The 'chemicals' sector continued to report the strongest employment growth over the past four months while 'textiles', 'other manufacturing' and 'metals and metal manufacture' on the other hand reported reductions in employment levels. All sectors with the exception of 'chemicals' and 'other manufacturing' are expecting reductions in employment levels.

A balance of +46% of firms reported a rise in costs with average costs per unit of output rising at a faster rate than was the case for the previous Survey. The balance of +46% is the highest figure since April 1981. The rate of increase in average prices at which domestic orders are booked also picked up during the four months prior to the Survey, although not by as much as had been expected. A balance of +18% of respondents reported an increase in prices. A net of +39% expected prices to rise during the current quarter, partly reflecting the revision of the price lists at the beginning of the year.

Optimism about exports reached its highest point since April 1976 with a balance of +32% of firms. Increased confidence was reported by all size firms and by all sectors apart from 'metals and metal manufacture. Export order books have improved since the previous Survey with respondents indicating above normal export books. Prices remain the most important factor likely to limit with +66% of respondents citing this factor. Political or economic conditions abroad remains the second most cited factor.

Summary

Both the CBI and the SCBS surveys continued to report a pessimistic outlook towards business confidence, although there was an improvement in optimism from the previous surveys. The firms do however remain fairly confident about orders and sales, but are rather pessimistic over employment expectations.

Primary

AGRICULTURE & FORESTRY

The new president of the National Farmers Union of Scotland, Mr John Ross, from Wigtownshire, has wasted no time in setting out his aims for the future. His most important item is to ensure that a "decent settlement" is achieved at this years E.C. farm price fixing, by putting maximum pressure on the government. Secondly, he wants to continue the marketing initiatives, at present marketing Scotland's pig industry, into the sheep and beef sectors. Thirdly, he will be looking into the finances of the Scottish NFU which have been a cause for concern of late and reassessing the services they offer to farmers.

He made strong reassurances that despite last years £63,000 deficit the union is nowhere near bankruptcy. There are "massive reserves" and the president will be looking at "priority areas" as opposed to any major restructuring of the organisation.

Within the E.C. there is broad consensus that prices should be frozen for another year on main commodities. Many ministers want other measures to be taken to alleviate the "plight" of Southern European farmers, many of whom see the real possibility of actual price cuts in the coming year. The Netherlands and Denmark joined Britain in opposing the proposed extension of the suckler cow premium to farms with mixed beef and dairy herds. It is strongly felt that such a move would be open to fraud.

The phasing out of the variable premium for prime lamb has made the immediate future uncertain for producers in spite of the hoped for emergence of a pattern of seasonal price trends. This will necessitate a more market orientated approach from producers for both finished lambs and store sheep. At present no one can say for sure whether it is best to market lambs early or to hold on to them for as long as possible.

This uncertainty is of course going to place an important role on brassica fodder crops, although the crop balance will have to swing more towards swedes and away from rape in order to keep the lambs over until the spring. An alternative to this is the stocking of rape in September as was the case in the past. Former NFU livestock convener, Mr Jim Sharp, talking at the recent British Grassland Society's conference at Peebles said that he could cite four main reasons for growing 100 acres of mixed brassicas - swedes, kale and fodder rape: (Mr Sharp's farm is hill and upland/arable, sheep and beef with the majority of output finished on the farm).

1. Brassicas help improve the returns from the lamb crop by marketing later in the season as well as the last ewes which are poorly marketed on many farms.

2. They can be used as "pioneer" crops when renewing old pasture and as a cover crop for game. Often some brassica crops, especially kale, are sown specifically for game, however, it is usual for most of the crops to be managed so as to maintain some cover until the shooting season is over.

3. Swedes are available for the unfinished lambs and will facilitate the purchase of long keep store lambs in the autumn and the finishing of ewes.

4. The variable costs of growing brassicas varied from about £35 an acre (rape after winter barley) to £57 an acre (kale due to more expensive seed).

If the future for UK sheep farmers is to be secure then a much harder and more organised selling process will be necessary in order to obtain the gradual increase in prices needed to meet production costs in the 1990s. Scottish producers will need to carve out their own niche market and will require to balance and control the flow of the product on to the market to take account of seasonal and continued demand.

The rationalisation of E.C. abattoir standards by 1993 will likely force the closure of many UK slaughterhouses in the next few years. There is also likely to be pressure from the retailers for the vetting and preparation of lambs to take place in large meat plants.

This leaves producers facing a decline in the number of auction marts, a drop in the number of abattoirs and an already concentrated retail sector, leading to further erosion of producers bargaining powers. This should force a closer co-operation between the groups and could well increase a greater joint marketing programme.

The Fraser of Allander Institute has recently completed a survey of the Economics of Sporting Shooting for the British Association of Shooting and Conservation (BASC) and the Scottish Development Agency (SDA). This survey shows the impact of game shooting on the Scottish economy generates a revenue in the order of £28.6 million annually. With less than half the number of properties rated for sporting shooting actually used for sporting shooting and with increasing demand it is surely a viable diversification.

The government has announced that beef and poultry farmers are to be fully compensated (100%) for animals suffering from bovine spongiform encephalopathy (BSE) or "Mad Cow Disease" as it has colloquially become known. There is still great concern that the disease which has killed in excess of 10,000 cows could infect humans. However, Mr Tim Lang, director of the London Food Commission pressure group said compensation should exceed 100% "to give farmers a positive incentive to hold back from slaughter any animal about which they have the slightest doubts". Cattle can incubate the infection (which is thought to come from infected sheep offal) for years without showing symptoms. These animals are entering the food chain but the Government believes the risk to human health is minimal by removing the most infectious organs. At least 150 new cases of BSE are reported every week and the Agriculture Minister, Mr John Gummer says that this number is expected to continue rising until 1993. The ministry has commissioned research into whether infected mothers can transmit BSE through the placenta to their calves. Calf brains are excluded from the offal ban and are permitted for sale.

Changes in the regulations under the control of Substances Hazardous to Health are of prime importance to Scottish dairy farmers. It is not quite clear where a farmer would stand should one of his employees claim to have contracted Leptospirosis from the cattle with which he or she works. Leptospirosis has been common among dairy cattle in the West of Scotland for many years and outbreaks of "milk drop syndrome" and abortion have been sporadic and of little cause for concern. However, the main cause for concern is that it can be passed on to humans, mainly dairymen, infected after contact with urine from excretor cows. This manifests itself in a "flu-like" illness with fever and joint pains with gradual recovery. However, in severe cases it may cause meningitis and can be fatal. Therefore it would be wise for dairy farmers to instigate a screening programme to demonstrate that they are doing all they can for their workers.

The National Audit Office in trying to assess the effects of aid for the improvement of farm structures, "has not been able separately to measure or assess the impact of support on the structure and efficiency of British farming, on the level of farm incomes, on the maintenance of Less Favoured Areas or the conservation of the countryside". In a recent report* the NAO is critical of the way some projects have been pioneered and followed through. There is no inspection prior to the payment of grants to control pollution from farm waste. Since 1980 nearly £1.6 billion (£2.4 billion) at 1988 prices) have been spent on structural support to UK agriculture, about 75% from the E.C. and the remainder from Britain. The NAO is concerned that a greater effort should be made to evaluate new schemes like the environmentally sensitive areas introduced in 1987. It suggests that, for example, the new £50 million programme to control farm pollution should set targets for say, a reduction in the number of pollution incidents recorded.

The passing of a resolution, backing the continued use of pesticides, at the recent NFU meeting is seen as a rejection of "green" agriculture. However, the 1000 member British Organic Farming and Organic Growers Association said that the decision was out of step with public opinion, the trend in government policy and with retailers who wish to secure increased supplies of organic food.

There is certainly a high degree of confusion regarding the safety of pesticides, residues of which have been found in some foods bought in supermarkets by Friends of the Earth and Parents for Safe Food. These fungicides are linked to cancer and are banned in the United States. The fungicides like maneb, mancozeb and zimeb are banned by the US Environmental Protection Agency as carcinogenic. However, the Ministry of Agriculture said recently that it had no plans to restrict their use.

The World Wide Fund for Nature says that the Forestry Commission should no longer be the sole judge of forestry applications. This was in response to recent Scottish Development Department proposals for regions to prepare indicative forestry strategies. The WWF said that forestry development should take more account of the needs of local people and of conservation.

The WWF's assistant conservation officer for Scotland, Mr Martin Mathers said: "The only way forward for UK forestry is through sustainable resource management". He suggested that the present system could be tightened up in order to give the statutory bodies a more positive role in decision making.

The WWF made five recommendations:

1. Indicative forest strategy should consider forest quality as well as location.

2. The UK should set an overall target for the size and nature of the forest estate.

3. District Councils should include woodland planning in local plans.

4. The incentive system should be redesigned to encourage multipurpose woodlands on improvement agricultural lands.

8. Indicative strategies should used to steer the industry towards creating the type of woodlands society desires.

FISHING

Statistics issued recently by the Department of Agriculture and Fisheries for Scotland show that the value of fish landed into Scotland by UK vessels in 1989 was £245m, 3% less than in 1988. Quantity landed fell by 8%, while prices rose by 5%.

Demersal (white fish) landings, in particular, showed large volume falls, although price rises produced some offsetting effect on fishing incomes. Volumes of landing falls for various species were as follows: haddock down by 25%; cod by 11% and whiting down by 2%.

Pelagic species in total showed a small (4%) fall in value terms between 1988 and 1989. Mackerel volumes fell by 7%, whereas herring rose by 9%.

Shellfish in total exhibited little change in value terms between the two years in question, although in general it was the case that volumes of landings fell whereas average prices rose.

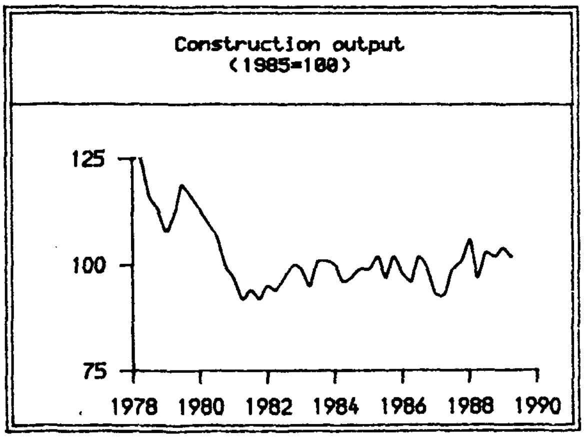
The major "event" affecting fishing in Scotland since the previous issue of this **Commentary** has been the new arrangements for allowable catches. Reductions in total allowable catches (TAC) for various species arose from scientific advice showing a serious problem of stock depletion in community waters. The problem is not a new one of course and fishing quotas have been reduced (for certain species) in earlier years.

Species thought to be in jeopardy include haddock, cod and saithe. The final agreement, reached by the European Commission in December, was a little better than first valuations suggested. The quotas are though, according to Scottish fisherman, far short of what is needed to sustain the industry on a commercially viable basis. Britain's quota for North Sea haddock for 1990 is 36,300 tonnes, compared with 54,500 for 1989 and 128,000 in 1988. The magnitude of the quota cuts is thus very dramatic.

Mr Allan of the Scottish Fisherman's Federation, estimates for example that the haddock quotas represent only half of one year's worth of fishing for the existing fleet. Given this situation, a serious problem exists with regard to excess fleet capacity and major falls in fishing income. (Prices will of course rise as catches fall, but it is very unlikely that this will be a full compensating factory).

Meanwhile, the combination of reduced catch volumes and stricter hygiene regulations is threatening to push the financial problems "downstream" into the fish processing industry in Scotland. As a result, the industry is seeking government financial aid.

Construction



The latest Scottish Chambers Business Survey (SCBS) shows that respondent firms have reported a present capacity rate of utilisation of 84%. The balance of optimism for respondent firms is -3%; this from a position in the previous quarter of -23%. So a further 3% of respondent firms are less optimistic about the overall business situation than they were three months ago.

The expected trend for new orders from central government, other public sector and private sources all exhibited positive balances of 17%, 8% and 16% respectively. This compares with an actual trend for the preceding three months; again respectively +11%, +15% and +14%. A large proportion of respondents exhibited no change in the trend in new orders for the future three months than the preceding three.

Respondents stated that the actual trend in employment in the last three months was up for a balance of 30% of firms whilst future trends in employment for the next three months show a balance of a further 19%. This increase is expected to be met by increases of manual and non-manual employees for a balance of +16% and +10% respectively of all respondent firms.

The SCBS shows that Aberdeen and Dundee are experiencing problems in recruiting skilled labour, indeed this has been cited as the main limit to output in Aberdeen for both this and the previous SCBS.

The Building Employers Confederation (BEC) State of Trade Enquiry for February 1990 shows that 45%, 42% and 43% of Scottish firms reporting found difficulties in securing bricklayers, carpenters and plasterers respectively.

There is an exhibited future trend in work in progress for a balance of 42% of respondents. The limiting factors in output are ranked as orders/sales for 41% and shortage of skilled labour for 29% of respondents.

The rising curve of new orders is beginning to level off, but the high capacity utilisation figure shows that it is levelling off at a fairly high level.

The prosperity of the Scottish construction industry is seen as being supported by relative stability of the home ownership market, in direct contrast to the South of England. Despite a slowdown in new private commercial development it is hoped that its relatively high level will act as a catalyst to further investment.

High interest rates are of course beginning to bite on two fronts, firstly affecting the decision of clients to build and secondly the cost of the constructor of financing the project.

The Nationwide Anglia Building Society's house price index for 1989 shows that for the last quarter in Scotland there was an increase of 2.7% in house prices and an annual figure of 26.3%. These figures put Scotland third in the UK behind the North and the North West of England, showing annual changes of +40.5% and +33% respectively. The Halifax regional house price index paints a broadly similar picture although Scotland is shown as having an annual growth of only 17.5% and a fourth quarter rate of 2.8%. Both indices however still show that house price inflation in Scotland has reached its peak and future increases will not be as severe as those experienced in 1989.

There has been an increase of £3.5 million in supplementary housing capital allocations for Glasgow District Council for the current year 1989/90. Of this amount, £1.0 million will be used on the Council's own housing stock and £2.5 million will be available to enable continued support for important projects in co-operation with the private sector.

EEC harmonisation, in preparation for 1992, has led to a considerable amount of work being undertaken by the British Standards Institute (BSI), supported by research organisations, manufacturers, technical experts and users in order to make key technical requirements uniform throughout Europe. It is essential that government funding is made available for this in order to give British firms an equal opportunity.

The UK construction industry has always had an international orientation and has been active in such organisations as FIEC (Contractors), CEDIC (Consultants) and CEMPC (Manufacturers) for many years. These and other associations are actively pursuing the need to ensure that legislative and regulatory parameters of post 1992 business promote rather than inhibit fair competition and enterprise. The single European Market will affect <u>all</u> British civil engineering contractors to at least some degree.

The present buoyancy in the construction market in Scotland is giving little incentive to firms to seek and develop other community markets. However, it is in the best interests of every individual civil engineer to learn another community language. Indeed, the Federation of Civil Engineering Contractors is suggesting that every company should consider the appointment of a "Mr or Ms Europe" to oversee their own involvements in and effects of the Single European Market.

Proposals for a Single European Time Zone, however, have a number of serious disadvantages to Scottish participants in the construction industry. If such proposals were to take effect they would lead to an alteration in the winter working hours which would add significantly to peak hour traffic both in the morning and the evening and hence increase the likelihood of an accident.

Energy

OIL AND GAS

According to the Royal Bank/Radio Scotland index, North sea oil output in December 1989 averaged 1.96 mbpd, a fall of 2.5% compared with November. The short term decline in output was primarily attributable to a reduction in Brentfield output of 37,000 bpd.

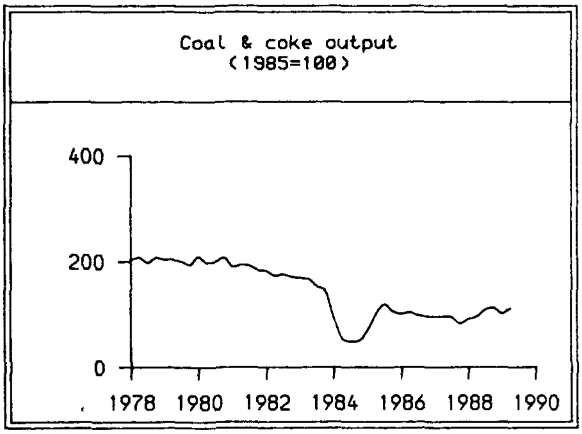
Over 1989 as a whole, the average daily volume of oil output was 1.85 mbpd, 20% less than in 1988. However, on the assumption of no new major offshore accidents, output volume should recover towards 1988 levels this year. However, in spite of the fall in output volume in 1989, average daily output value was £1.12 million higher than in the previous year. This was because (a) the average dollar price per barrel increased by 22% and (b) sterling depreciated against the dollar by 8%.

Crude oil prices continue to exhibit short-run volatility, albeit around higher mean prices than many expected a few months ago. In early January, Brent crude reached a four year high of $22.50 pb before falling back to $19.65 pb within two weeks. Analysts expect some further easing of prices over the next few months as the Northern hemisphere moves from winter into spring, typically reducing the demand for heating oil in particular.

In recent months a number of reports have indicated that this year could see a significant upturn in offshore activity on the UKCS with resulting benefits for the onshore oil supplies sector. For example, a recent survey of North sea operators by the Financial Times suggested that exploration/development drilling in the UK sector could be at least 18% higher in 1990 than in 1989. This would be sufficient to keep an average of 95 drilling rigs active throughout the year. In January, Energy Minister Peter Morrison forecast that development expenditure in the North Sea could be £3.7 billion this year compared with £2.5 billion last year. In a detailed report, the Scottish Development Agency has predicted that total offshore expenditure on the UKCS could be £5473 million in 1990 at constant 1989 prices, a real increase of £808 million from last year.

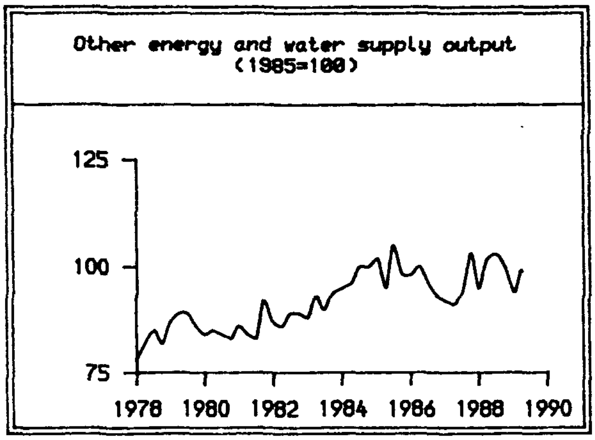
While a "mini-boom" in offshore activity can only be beneficial to oil-related industry onshore, some concern has been expressed that the indigenous oil supplies sector does not have the capacity to meet a rapid expansion in demand, leading to a significant proportion of new orders going to foreign competitors.

COAL, ELECTRICITY AND OTHER ENERGY



The revised timetable for electricity privatisation indicates that the Scottish boards, now stripped of their nuclear generating capacity, will probably be floated in May 1991. This is after the English distribution companies (discos) in the autumn of this year and the English generating companies in the spring of 1991. While much of the preparatory work on the sale still has to be performed, it appears that the revised timetable is now fairly firm, as any further delay would bring flotation into the election period. Remaining problems and uncertainties would therefore be more likely to be resolved by a reduction in the asset value realised by the sale than the extension of the sale period. While progress has clearly been made toward defining the structure of the post-privatisation industry, a number of such problems remain.

From the Scottish suppliers' point of view, two important decisions will affect their asset price on flotation. Both refer to the opportunities for 'exporting' power to England. The first concerns the upgrading of the physical link to allow surplus electricity to be exported to England. While final decisions have not yet been taken on upgrading, the Hydro Board has begun to export using the existing connection.



The second area of uncertainty refers to the conditions of competition in the market for industrial electricity south of the border. This is the target market for Scottish exports, especially as new independent generators in England are unlikely to produce for the first year after privatisation. During this period, the government is capping prices to large industrial customers, those purchasing at least 1MW. This is necessary as the large users have been cross-subsidised by consumers for many years through not having to pay for transmission and capacity charges and through receiving dedicated power generated at the lowest cost coal stations. Eventually, prices to large customers are likely to rise by between 20% and 40% in real terms. From the Scottish generators' point of view, the limitation on price rises has to tread a fine line between reducing profits on resale of Scottish nuclear energy and encouraging early investment in new generating capacity by independent producers.

The Scottish producers are therefore hedging their bets as to their ability to export power to England. In particular, the present Hydro Board, officially the NSHEB and soon to become Scottish Hydro-Electric, is involved in one of two 'independent' consortia considering constructing power stations on Teesside to burn North Sea gas in a project connected with developments in the steel industry in the area (from which see the section on the iron and steel industry). It could well be that the Scottish producers will attempt to be part of rather than compete with the new 'independent' producers in England.

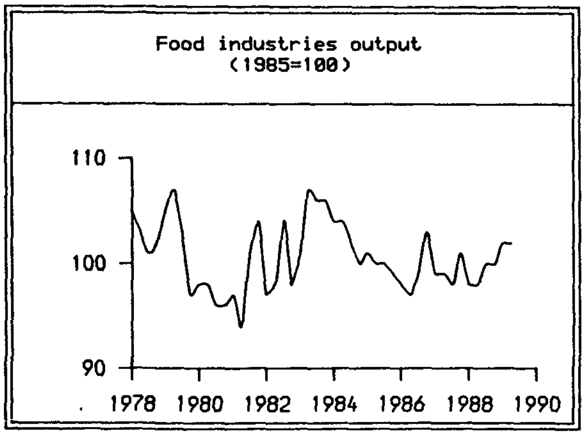
This change of direction is likely to have been the result of the retention of Scottish Nuclear within the public sector. This leaves Scottish Power and Scottish Hydro-Electric more akin to the English power distribution companies in their structure. The future of the Scottish nuclear industry is therefore still subject to political decisions. One of the brighter spots of the privatisation process has been the new policy of glasnost regarding nuclear costs. The two Scottish power boards have written off these £1bn of costs in the year just finished with regard to the closure of the uneconomic Magnox station Hunterston 'A'. These are made up as follows. In addition to £188.8m of direct costs to be written off, upward revisions to decommissioning costs total £143m and the costs of treating operational wastes at the station come to £158.5m. As well as this sum, additional fuel costs from BNFL price rises come to £350m. The SSEB's increase in recurrent nuclear costs is £38m. The decommissioning costs (ie excluding the fuel increase and recurrent costs) compare with a figure for decommissioning CEGB nuclear stations in England and Wales of £600m a time. While this figure is higher than the Scottish numbers, it is also possible that the greater efficiency of the Scottish industry is responsible for the discrepancy. However, it is entirely possible that nuclear costs both north and south of the border have still been considerably underestimated.

The purpose of writing off existing costs was to allow the non-nuclear sections of the Scottish power industry to be floated relatively free of debt, the taxpayers picking up the bill. Any further increase in costs will be borne both by electricity customers, in the form of the 'nuclear tax', and the taxpayer. The 'nuclear tax', levied on fossil fuel power generation, has now been set at 10.6% of final electricity prices, though the government states that it is expected to fall over time. The government has also decided that combined heat and power stations (chp) which deliver less than 50% of their output to the national grid will be exempt from the levy. These stations are both economically and environmentally comparatively acceptable. This decision will be a boost to independent generators, notably in England. One decision which is not so environmentally useful is that not to require flue gas desulphurisation of coal plants. While older, smaller plants where the investment required would not be economic are largely in England, this reduces the potential market for Scottish power.

The government's price freeze, already referred to, also applies to smaller industrial users and consumers. Consumer prices will rise by slightly more than inflation in April, followed by rises in the next two years pegged to inflation. Smaller industrial and commercial customers may see some real decline in their power costs. This is a rather disappointing result, given the decline in input costs, especially coal.

Manufacturing

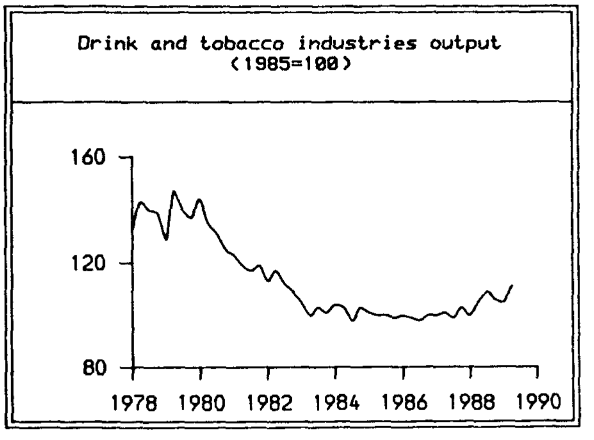
FOOD, DRINK AND TOBACCO



A recent report has proposed that the drinks industry is currently facing two major challenges. The first of these has arisen from the fear of Governments and anti-alcohol groups that people are drinking too much. As a result there have been a number of campaigns pointing out the ill-effects on health of alcohol misuse. This could damage sales of alcohol as people become more aware of these effects. The response of the big drinks groups; Seagram, IDR, Allied-Lyons and Guinness, has been to set up a group to tackle alcohol misuse. The aim of the group, called the Portman Group, is to promote better, more expensive, brands that people should drink less of.

The second challenge facing the industry is consolidation. The 1980's has seen a number of takeovers and like many other sectors there has been a tendency towards fewer, larger firms which are more international in their outlook. Distribution is the key to gaining a foothold into foreign markets and, as a result, there have also been a number of joint ventures which may or may not result in takeovers. The globalisation of beer markets has been slower but is proceeding nonetheless. It is expected that in 1992, with the single European market and the breaking down of tariff barriers, consolidation and concentration will speed up. There has been one criticism of this notion. It has been argued that excise duty on alcoholic drinks will remain a barrier to free trade.

In Britain the brewing industry is facing a further challenge. The Monopolies and Mergers Commission has recently suggested that brewers who own more than 2,000 pubs should either sell the surplus or introduce other beer brands. This is likely to force brewers to concentrate on either brewing or retailing. Whitbread is selling its spirits division to concentrate on retailing and it is expected that only Bass, Courage and Scottish and Newcastle will remain brewers. Guinness don't own pubs and Grand Metropolitan, Whitbread and Allied-Lyons are likely to concentrate on retailing.



In late December Allied-Lyons purchased the wines and spirits division of Whitbread, leaving that company free to concentrate on its retailing activities. Elders IXL the Australian brewing company which owns the Courage beer group in Britain is about to re-acquire 5,000 Courage pubs for £250m. This may be the first step towards an asset swap with Grand Metropolitan. Elders, if this deal went ahead, would exchange the pubs for Grand-Metropolitan's breweries. Grand Metropolitan however, are currently involved in talks with other parties including Anheuser-Busch whose Budweiser beer brand they currently distribute. They wish to settle the future of their brewing investments by spring.

Grand Metropolitan are also in the process of buying a minority stake in Remy-Martin. It is negotiating with the Max Cointreau family for its

49% share in Remy-Martin and its 19% stake in Cointreau which are soon to merge. If the deal goes ahead, Grand Metropolitan will have a 20% share of the merged company at a cost of £100m.

Control Securities, who own Belhaven Breweries, have bought 220 pubs from Grand Metropolitan bringing the total of their pubs to 770. Belhaven sales are expected to rise by 15,000 to 20,000 barrels and Control Securities are now widely regarded as one of the top three regional brewers. They have negotiated a deferred payment for the pubs with initially only £7.5m being paid in cash. Grand Metropolitan will get £5.85m worth of Control shares giving them a 2.5% stake in the company.

A G Barr, the soft drinks manufacturer, has shown better than expected year-end pre-tax profits. They are only £400,000 down on last years' despite the company having suffered a number of setbacks. High interest rates forced up repayments on money borrowed to take over Mandora St Clements, water problems at two plants affected production and rationalisation problems were also prevalent. While interest rates remain high the other problems have been resolved and a good summer boosted sales by 15% and annual turnover by 8%.

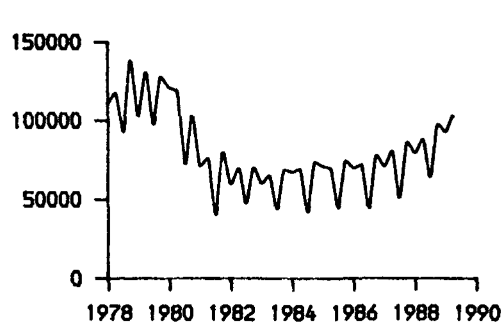
Alma Holdings, the Dundee based company, is setting up a new plant in Glenrothes at a cost of £7.1m. This will replace the Stockport plant which was destroyed by fire and will employ 260 people. 1,300 people are employed by Alma Holdings world-wide and 1,000 of these are in Scotland. The company is recognised as the third largest UK confectioner since its takeover of Barker and Dobson and Squirrel Horn and Keiller. Sales are expected to exceed £60m.

WHISKY

Export figures for the calendar year 1989 give further evidence of the improved position of the Scotch whisky industry. Total exports were actually 1.4% down on 1988 at 242.5 million LPA (litres of pure alcohol), but the overall performance masks several encouraging features. Bottled blended exports, the mainstay of the industry, rose by 3.6% during the year, with bottled malt exports growing by 4%, a somewhat less spectacular growth rate than of recent years but nevertheless very welcome.

The overall drop in exports is totally accounted for by a substantial (23%) fall in the volume of bulk blended exports. In many ways this is another illustration of the industry's increased strength because bulk exports are the lowest value-added and most controversial aspect of the industry's activities. It is also worth noting the total nominal value of whisky exports rose by 14% during 1989, reflecting the improved prices which producers are now receiving.

Total whisky production
Litres of pure alcohol - thousands



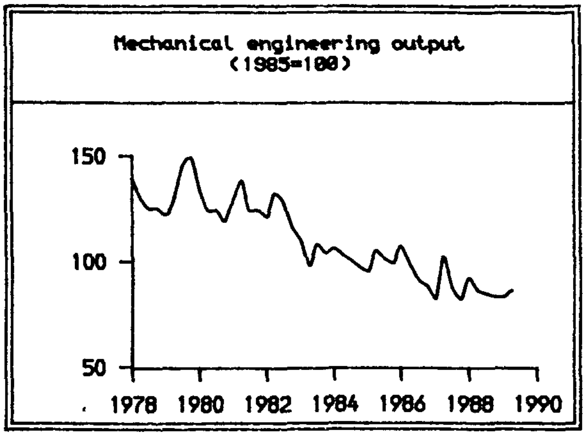
At the time of writing, information on whisky production is confused by a disagreement between HM Customs & Excise and the Scotch Whisky Association over production levels for the third quarter of 1989. Nevertheless, there seems to be little doubt that production has once again increased sharply, and total output for 1989 will be between 15% and 20% higher than 1988's level of 329.9 million LPA. Production levels such as this have not been seen in the industry for nearly a decade.

The most important, and in some ways saddest, piece of news in the last quarter has been the failure of the proposed management buyout at Whyte & Mackay. Gallaher, the US-owned tobacco group, has now bought Whyte & Mackay from Brent Walker for £160 million. The inability to find the necessary funds for the buyout coupled with a bid from bottlers Burn Stewart apparently led to Gallaher's move. The disappointing aspect of all this is the opportunity lost to return Whyte & Mackay to Scottish control for the first time since 1979 when the company was acquired by Lonrho. Had Whyte & Mackay returned to Scottish control the proportion of Scottish owned whisky distilleries in Scotland would have risen above 25% for the first time in a decade, but instead American interest in the industry has increased. Interestingly, Gallaher's move into Scotch whisky runs counter to the recent trend which was towards

US companies withdrawing from the industry. Before the purchase of Whyte & Mackay, Seagram held the only sizeable North American interest in the industry following the withdrawal of both Publicker Industries and Hiram Walker.

This is not, however, the only important change in ownership recently. As the last commentary mentioned, James Burrough Distillers, which includes Long John, was put up for sale by owners Whitbread. The buyers in late December were Allied Distillers, the wines and spirits arm of Allied Lyons, which has become a substantial force in the industry with its existing Wm Teacher and Hiram Walker connections. Allied will now control around 17% of the world whisky trade, second only to Guinness.

MECHANICAL ENGINEERING



The downturn in the economy as a whole is only now beginning to affect the Scottish mechanical engineering sector. The Scottish Chambers of Commerce Business Survey still reports positive balances of responses for new orders, sales and employment. The pattern is similar for the outlook for the next three months. However, the balance of responses for investment is down. This reflects adequate existing capacity and, notwithstanding the optimism regarding output and orders, the level of demand. Within this picture, the view over exports is brighter than that for UK orders. This may well reflect the rapid depreciation of the pound at the end of 1989. One cause for concern noted by a number of respondents is a shortage of skilled labour. This reflects concerns expressed by the CBI at national level about the availability of trained staff.

The employment level in the Scottish engineering and metals sector has been stable in the year to September 1989 while for Great Britain as a whole employment recovered to its position a year earlier, having declined in early 1989. This indicates that Scotland is not managing to pick up sector employment displaced from the South East of England, especially Greater London, by regionally increased labour and premises costs and by the impending (in England) Uniform Business Rate.

The fall-out from the privatisation and the change in nuclear policy continues to affect prospects for the power engineering industry. Those firms with heavy exposure to nuclear power that have not taken evasive action are likely to face problems, while there is at least the potential for benefits to firms with experience in constructing non-nuclear plants. The UK market for power plant during the 1990s has been estimated at up to 15 000MW, representing some eight stations. The size of the market has recently been reduced by the government's decision not to insist on flue-gas desulphurisation for all coal-fired power plants after the privatisation of the electricity supply industry. This will not only have environmental implications but also mean a loss of orders for both desulphurisation plant and also for generating equipment to replace plants where desulphurisation is uneconomic. The upside is comparatively lower electricity prices.

Of the Scottish firms that have potential for damage by the policy change, Babcock International, which won the order for the boiler for Sizewell 'B', have the potential to build boilers for fossil-fired stations. The Hopkinson valve subsidiary of Weir is also exposed to the policy change. While John Brown, a subsidiary of Trafalgar House, ought to benefit from their experience in turnkey non-nuclear projects, the indications are currently that the larger scale continental and American producers have been able to enter the market. In particular, Lakeland Power, which have won a major supply contract in the North West of England, are dominated by ABB, the Swedish-Swiss based engineering firm. The American construction firm Bechtel are scheduled to build a power station on behalf of British Coal. It is likely that the recent drive toward integration of a number of European power engineering firms, spurred on by the 1992 process, has not yet finished.

The reported performance of Scottish mechanical engineering companies has been greatly improved.

Howden's interim profits have increased by £1.7m to £7.1m, with a number of divisions contributing to profits. In particular, Howden's are supplying four tunnelling machines for the Danish Great Belt project. These are to be delivered by the end of 1990. The sector is seen generally as buoyant, hence the purchase of the Hong Kong drilling consultancy Fedco for up to £1.91m. Also in the tunnelling division, a £3.3m investment is being made in Renfrew. In the power engineering sector, the flue-gas desulphurisation project at Drax is worth some £20m over 3-4 years. The North American market for power generation is seen as being positive over the next few years. By implication, this shows a de-emphasis on the domestic market. Other subsidiaries are also attracting investment: the Craigton plant is to be refurbished to hold Howden Compressors and ADC Fans.

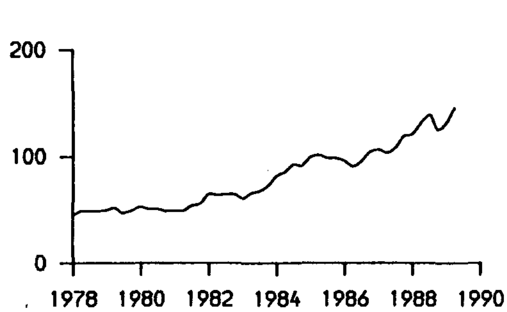
Other industry developments include the purchase by Anderson of the remaining 48.8% of the American firm National Mine Services at a price of $20m. John Brown Engineering have also reported positive results, making a strong recovery. The firm is to develop its water and sewerage engineering capabilities in Glasgow and Clydebank.

ELECTRICAL AND ELECTRONIC ENGINEERING

Following an enormous amount of behind the scenes bargaining, the beginning of the year brought the welcome announcement that Ferranti's radar division has finally been awarded the contract to supply the radar systems for the European fighter aircraft (EFA), a decision which will safeguard the company's defence-related jobs in Scotland until the end of the decade, along side the simultaneous announcement that the radar division had been sold to GEC. There was severe doubt surrounding the possibility of Ferranti winning the order following its acquisition of ISC, with the West German government in particular attempting to stress the lack of wisdom involved in awarding such vital work to a company whose future is so uncertain (while simultaneously pressing the case for a German-manufactured system (the MSD). Indeed, the West German's had originally threatened to fit the alternative system to its own planes, leaving the whole future of the ESA project in doubt. They have now retreated from this position and accepted instead a guarantee that they will not be responsible for cost overruns.

For Ferranti, however, the price has been the sale of its radar division which will at a stroke remove about a quarter of the company's total assets. It appears that the acquisition by GEC was a necessary condition for the contract to be awarded, as a means of securing the financial strength of the radar division. The UK government has accepted this fact and indeed appears to have been a prime mover. Because of its desire to retain an indigenous radar development capability in the UK Ferranti have also sought to further secure its future by selling its sonar division, based in England to a French company Thompson CSF for £32m. The reduced Ferranti group now plans to issue shares to cover its outstanding debts.

Electrical and instrument engineering output (1985=100)



The remaining worries surround the Ferranti sell-off of its radar division are the implications for competition in radar and whether there are any possible job implications for Scotland following the GEC sale. GEC also owns Marconi, the UK's only other radar manufacturer of note, but the government has clearly accepted that the benefits of keeping control of a vital defence interest in the UK outweigh any adverse implications for competition in the radar industry. It appears highly unlikely, therefore, that there will be any referral to the MMC, although this move has been suggested by Labour MPs. Secondly, the fact that the basic development work on the EFA has been done in Scotland will undoubtedly make it more likely that any rationalisation which follows in GEC's radar interests will occur at Marconi, which was responsible for GEC's loss of the NIMROD radar contract some years ago. Overall, it can be cautiously concluded that the electronic sector in Scotland has done better than appeared possible a few months ago.

Elsewhere, some notable developments have occurred in the modular telephone market, which has been growing strongly over the last couple of years. In early 1989 it was announced that 3 of the companies granted manufacturing licences by the DTI will use phones produced at Phillips factory in Dunfermline (see QEC March 1989). Now GPT at Kirkcaldy (a joint venture between GEC and Plessey) has announced that the continual sales success of the system produced there will secure 70 jobs at present, and there is a strong possibility of further new employment in the future as sales continue to expand. Most importantly, however, is the announcement by Motorola that it is to invest £100m at a plant in West Lothian which will produce mobile telephones. The reported 1,500 jobs involved will be a major boost for the area around Bathgate, which had a major disappointment recently with the decision of the Secretary of State to refuse planning permission to use the old British Leyland factory as a major leisure/shopping centre. Motorola have, of course, a long history in Scotland and the East Kilbride factory which produces semi-conductors has developed over time into an integrated operation responsible for design and marketing in addition to manufacturing. It is understood that the Bathgate factory will have a small design team in addition to manufacturing, and while it is impossible at this stage to speculate on the future development of the operation in West Lothian, the company's history of devolving high value added responsibility to Scotland suggests that there could be positive implications for both the quality as well as the level of employment.

The Motorola decision is important in other respects, especially when seen in conjunction with the announcement by Conner Peripherals that it will build a facility in Irvine which is expected to create another 1,500 jobs. Both of these announcements will go a long way to restoring the public image of Locate in Scotland and also to calming fears that Scotland is failing to compete in inward investment, a possibility which would threaten the continued expansion of "silicon glen". Such claims were bandied at the time of the Wang decision last year and when the Intel Corporation announced that it was to locate a major semi-conductor manufacturing facility in Ireland instead of Scotland. As was noted at the time, however, the Wang situation arose because of problems within the company and it was not reasonable, in our opinion, to infer that Scotland was in danger of becoming the wrong location for electronics plants. Intel was a major disappointment, but it is known that the company was overwhelmingly concerned with finding a low-cost production base in Europe, and "it is at least debatable whether Scotland should choose to offer only financial support to inward investors. It is germane to point out that Scotland retains a major package of attractions, not least the fact of a well-established electronics industry. Indeed, Conner have indicated that the major factors which attracted them to Scotland were the provision of an advanced factory, the quality of the labour force and the existing of an established supplier base. In addition, locating in Irvine will place it within 40-50 miles of a large number of major customers, particularly SUN, Compaq and IBM. All of these factors are, in some sense, due to a legacy of previous inward investment in electronics in Scotland and it is this which other peripheral areas of the UK find hard to match. Scotland cannot be expected to attract all major inward investment projects in electronics, but it will continue to attract a stream of them.

CHEMICALS & MAN MADE FIBRES

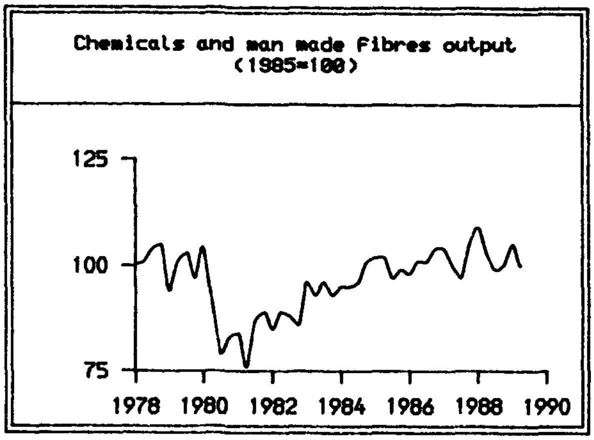
The latest Scottish Chambers Business Survey (SCBS) shows that a balance of 46% of respondent firms are less optimistic about the general business situation than they were three months ago. This shows a marked continuation in the decline of optimism. In the previous SCBS, only 20% of respondents were less optimistic than they were when answering the same question, three months ago.

Table 1 Scottish Chambers Business Survey
Chemicals & Man Made Fibres

	% Balance Quarter 1:90	% Balance Quarter 4:89
Balance of Optimism	-46%	-20%
Trend in Orders	-25%	15%
Trend in Sales	-26%	30%
Trend in Employment	-58%	4%

The trend in expected new orders and in expected sales in also showing a marked disimprovement for a balance of at least a quarter of respondent firms. Whilst the balance is positive for respondent firms expected new orders and sales, this is more than negated by a strong negative balance of -63% and -42% for expected new orders and sales respectively, to outside the United Kingdom.

Respondent firms are expecting to run down their stocks of finished goods and raw materials in the next quarter with negative balances of -17% and -22% respectively.



Capacity utilisation stands at an average of 81% for respondent firms whilst a balance of -58% of firms responding foresee a reduction in their seasonally adjusted employment needs for the next three months. The brunt of this employment reduction is being met by reductions in female employment with a balance of -59%. However, a balance of 47% of firms are expecting a reduction in male employment.

It is apparent that high interest rates are continuing to be a disincentive for investment with a negative balance of -78% of respondent firms revising their investment intentions for plant and equipment downwards. It is a similar story for investment in buildings although not quite so marked with a balance of 21% showing a downward revision.

The current changes in Eastern Europe represent an opportunity for investment in this sector and many companies are aware of the substantial potential that may be afforded to them. ICI is already represented in every Eastern European country except Albania, although they are awaiting market moves before committing large sums.

Britain is still seen as the Dirty Man of Europe and it is not a great triumph that it is to take us eight years to stop the dumping of untreated sewage sludge in the North Sea. The tide has turned and it is now a brave company indeed that will disregard the environmental consequences of its actions. The smart company should not wait for government legislation before adopting conservation measures, as there is a financial saving to be made as well as the environmental considerations.

Recycling and re-use: chemicals can be recovered from the production process and re-used.

Separation of toxic and non toxic waste, thus allows most wastes to be recycled and facilitates a waste audit to be undertaken.

Equipment modernisation and regular inspection will keep spills of chemicals to the minimum - simple good housekeeping.

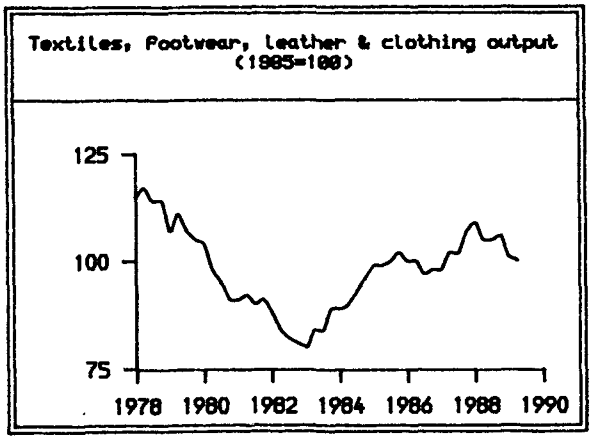
Process redesign: the introduction of closed loop systems in order to prevent waste.

Input substitution: e.g. degreasing can be accomplished by the use of a water and detergent compound rather than chlorinated solvents.

Product redesign: it may be possible to replace an existing product with one that can be manufactured using a less toxic production method.

The foregoing are all worth considering and may increase profits as well as company image.

TEXTILES, FOOTWEAR, LEATHER & CLOTHING



This quarter's results from the Scottish Chambers Business Survey are slightly less pessimistic than those of three months ago with only a balance of -11% of responding firms less optimistic about their business situation. This figure in the last survey (December 1989) was -68%. The trend in the volume of new orders and sales has continued downwards for a net of -6% and -11% of companies respectively. The orders and sales least affected are exports outside of the UK. The downwards trend is expected to continue and has already affected the trend in the volume of stocks of finished goods which has risen for a balance of +17% of firms. It is thought that this is likely to be ongoing over the next three months for a balance of +24% of respondents. 77% of all firms asked believed falling orders and sales are most likely to limit output over the next three months.

While a net of -43% of responding firms have shown a downwards trend in total employment over the last three months, a balance of +10% expect employment to rise over the near future. These results are also less pessimistic than those noted in last quarter's Commentary when a net of -40% of firms expected the downwards employment trend to continue. Female employment has been the worst affected with a balance of -39% of respondents reporting that this had fallen.

The issues facing the textile sector in the near future have forced a number of reactions from those involved. A number of textile groups from Western Europe are joining forces to represent the industry on issues such as the single European market and the expected abolition of the Multi-Fibre Arrangement (MFA). There is to be a committee formed to act on behalf of the industry composed of six industrialists with the United Kingdom, West Germany, France and Italy each having one representative.

There have also been reports of a restructuring in the industry as textile companies attempt to remain or become more competitive in the world market.

There has been a shift towards higher value products, diversification and the use of smaller, more versatile production units. Raised productivity is essential and expensive high quality products are more in vogue. This renders labour costs less important although in Europe employment has decreased. The greatest fear has been expressed over the abolition of the MFA even though the Economist Intelligence Unit has indicated that imports from developing countries into developed ones are lessening.

A conference organised by the General, Municipal and Boilermakers Union in Hawick expressed fears that textile companies in Poland and Hungary are hoping to increase their quotas under the existing MFA by 60% and 16% respectively. There have been calls for stricter import controls rather than existing ones being relaxed. It was restated that jobs lost from the abolition of the MFA would be closer to 100,000 than the governments estimate of 30,000 and there has also been discussion over the level of textile imports into Britain and the jobs already lost as a result of import penetration. Small and medium firms are said to have suffered most - especially those in the sector in competition with low cost imports from developing countries.

A recent report has indicated that the UK hosiery industry is facing increased European competition and reduced demand, the result of which may be a price war at the lower end of the market. During the 1980's tights and stockings became an important fashion accessory. Prices were high and sales increased. Changes in taste away from expensive patterned tights have resulted in decreased demand and increased competition as European and US companies have been attempting to gain a foothold in the British market.

Regular Commentary readers will be aware of the long running discussions concerning the merger proposal between Coats and Tootal. The latest news is that these have broken down even though the Monopolies and Mergers Commission agreed to the Merger in October last year.

The Chief Executive of Tootal has said that the companies failed to agree on a price even although the rationale for a merger remains. In May 1989 Coats valued Tootal at £395M but their recent offer has been for £315M. Tootal are aware that the uncertainty which has lasted now for a year is bad for their business given the current poor market conditions and have decided to remain independent and expand into the Far East.

It is expected that Coats will still sell its 20% share of Gutterman as well as its UK domestic thread interests in the hope that at some point in the near future talks will be resumed. Coats Deputy Chairman blamed the present poor state of the textiles market for the breakdown. Coats shares have fallen since the merger proposals began and it has suffered a fall in interim pre-tax profits from £76M to £55M.

Dawson International the knitwear group have announced an 11.4% increase in half-yearly pre-tax profits to £23.5M. This has resulted partly from a restructuring of the group and partly from the particularly cold winter. In the past year there have been redundancies and short term working at most of its companies resulting from a combination of high cashmere prices, poor quality raw materials, supply problems, higher prices to offset raw materials costs and the strong pound affecting the US market. In addition, fashion tastes away from this kind of product compounded the problems.

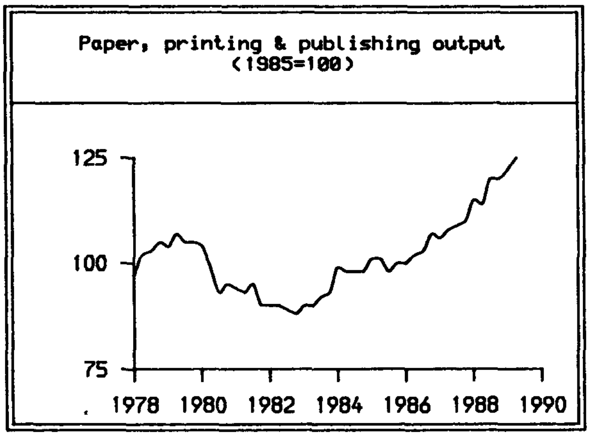
Four divisions have now been established - one each for US interests, spinning and weaving, fur fabrics and cashmere, knitwear and fine yarns. Each division will concentrate only on its own market. It is hoped this will rationalise the business side. New lines are being introduced as well as shops selling knitwear direct to the public (Ballantyne and Pringle). The knitwear company is also benefiting from new investment and Dawson is now more confident about their place in the knitwear market as well as the future of the market itself.

James Seddon, the Manchester based shirtmaker has gone into receivership and there is fear that 1,200 jobs at the four Scottish plants may be lost.

Throughout January the company was involved in merger talks to encourage investment. Later reports indicated that the Denny and Mayfield plants were to close with a loss of 450 jobs. Buyers are being sought and there has been some interest expressed in the Mayfield and Denny factories. The US Russell Corporation may buy the Mayfield factory to expand their Scottish interests. It is hoped that the company can be sold as a going concern.

A number of companies have changed hands over the past three months. Walter Alexander is in the process of selling the majority of its businesses to a single buyer for £32M. The home textiles division has been sold separately. Coats Viyella has agreed to a management buyout for £27M cash for its Nottingham Group - the schools and hospitals equipment subsidiary since their policy is now to concentrate on the textiles and clothing market. A buyer has now been found for the Borders knitwear firm Murray Allen securing its 125 jobs. Union Cashmere beat off another two firms to take over Murray Allen after its parent company Oakwood was put into receivership. Murray Allen are now expected to produce cashmere knitwear for export.

PAPER, PRINTING AND PUBLISHING



The results of the latest Scottish Business Survey indicate that a net -3% of firms are less optimistic about the general business situation than three months ago. This is despite the trend in both the volume of new orders and sales rising for a balance of +31% and +13% of firms. While the upwards trend is expected to continue for new orders, a net -3% of respondents expect a downwards trend in the volume of new sales over the near future. Non-UK orders and export sales have shown the best results - a balance of +35% of firms have increased the volume of their non-UK orders and a net of +55% their export sales. This healthy trend is expected to continue over the next three months.

The trend in total employment is downwards with a balance of -21% of companies reporting this. The downward trend is expected to continue. Male employment has been the worst affected - a balance of -17% of firms have shown a decrease in male employment while only a net of -7% have indicated that female employment has been falling.

A balance of +30% of companies have revised investment intentions upwards for plant and equipment and a net of +17% for buildings. For 27% of the firms this has been to increase efficiency.

A recent report has highlighted the extent to which the pulp and paper industry has been growing in response to a large increase in demand. Between 1982 and 1988 output rose although not fast enough to cope with the greater demand. Prices for pulp are now on record as increasing for thirteen consecutive quarters. This has fed into paper prices.

Investment in a new pulp or paper mill, to increase capacity in order to meet increased demand, must be on a large scale and, with cost considerations, planned at least two years in advance. When in operation a new mill raises capacity considerably. Before new capacity is brought into effect there tend to be supply constraints followed by rising prices and since it is not until prices are rising that investment will be encouraged, there is an inevitable time lag. It is often the case that demand is starting to be "choked off" by rising prices at the same time as the new capacity is brought onto the market. This results in spare capacity and the industry goes into decline. At such a time older high cost producers will be hardest hit unless they are in a position to shoulder any losses which may be sustained. This produces a spate of mergers and takeovers as companies try to even out profits and losses in pulp and paper production.

The paper industry at the present time is aware that it could be on the verge of the kind of decline described above. A lot of new capacity has recently been brought into effect at a time when the market is starting to 'soften'. There has been an effort to iron out the booms and slumps cycle that is prevalent in paper production. As a result there have been many mergers and the industry is also becoming more international to take advantage of cheap raw materials and new markets in other areas. Takeovers have taken place as each company vies to remain in business should the market deteriorate. Size and new technology are seen to be the safest guards against bankruptcy alongside vertical integration.

In Britain there has been a high level of restructuring into a smaller number of very large mills but despite the success of these mills imports are still high. It is hoped that with more recent investment coming into effect import levels will fall. One optimistic sign is that foreign companies are now investing in UK paper mills and there have been a number of joint ventures between Uk and foreign firms eg Reedpack are considering a partnership with Daishowa a Japanese owned Canadian paper company. It is felt that the market is less buoyant now than it has been and that it is no longer possible to pass cost increases onto the consumer resulting in a decrease in profitability. The steps taken to remain competitive in the world market will be of vital importance in the near future as competition sharpens in the face of a possible downturn.

At industry level the actions of companies in the face of increased competition are shown by the speculation which took place throughout December over the £263m takeover bid for UK Paper by Metsa-Serla the Finnish forest products group. The deal, had it gone ahead, would have been advantageous for Metsa-Serla in terms of vertical integration since it is, in the main, a pulp producer while UK Paper manufactures fine paper. The combined company would also have been much larger in the current highly competitive market. City analysts however, expressed a fear that the company was selling too cheaply. They argued that land owned by the company, which became independent in 1986 after a management buyout from Bowater Industries for £38m, was undervalued and that the benefit to Metsa-Serla of owning UK Paper was greater than what they were offering. Although it had been suggested by the board of UK Paper that pre-tax profits for 1989 would be £15m - down from £19m in 1988 as a result of high pulp prices, in fact at the interim stage for 1989 pre-tax profits had increased by 9.5%. This further strengthened the analysts argument. The UK Paper Chairman however stated that he was happy with the Metsa-Serla offer and urged shareholders to sell. He suggested that Metsa-Serla were the kind of organisation which UK Paper wished to be involved with and that under the new deal the management of UK Paper would remain independent. The situation changed very quickly when Fletcher Challenge, a New Zealand pulp and paper group, offered £299m for the company. They are interested in expansion in Europe as well as diversification - at the moment they produce newsprint paper. UK Paper accepted their increased offer since Metsa-Serla did not increase theirs to match Fletcher Challenge. The city analysts had been proved correct.

Services

FINANCIAL SECTOR

1992 is currently a popular subject of concern for the press and the financial community. As anxieties and complaints with regard to the Financial Services Act and its ramifications subside attention has focused on the possible implications of a single European market for Scotland. The picture is far from clear. Community directives are not always what they seem. Despite having constructed the UCITS (Undertakings for Collective Investment in Transferable Securities) Directive as a response to the widely different forms in which portfolios of securities may be sold in the Community to the public, the Directive appears to exclude investment trusts although their economic function is little different from the myriad of Unit Trust type vehicles that are covered. No doubt such deficiencies will be recognised at a later date with modified or new Directives but at the moment a substantial part of the Scottish fund management industry is not in a position to benefit from Community wide sales despite a great deal of interest in the possibilities offered by closed-end (investment trust) funds in some member counties such as Italy.

Uncertainty as to the content, form and implications of proposed directives is not confined to those relating to financial investment but rather is widespread and makes forecasting of some of the consequences of 1992 for Scotland very difficult. One concern that has been expressed is that Edinburgh and other European secondary financial centres could lose out to the larger markets such as London, Paris and Frankfurt with a consequent decline in employment and the services offered. Financial centres arise from the collecting together of financial institutions in one centre able to offer a variety of services. There is no requirement that the centre should be able to offer all services and indeed no formal definition of what constitutes a financial centre at all. Typically Edinburgh (or more generally Scotland) is thought to represent a financial centre, a result of the diversity of firms and services available. The decline of Edinburgh as a financial centre could mean a loss of jobs, perhaps to London, or slower growth in financial employment and services than other centres but we must ask if there is any particular reason why we should expect 1992, in particular, to bring this about. The loss of head office functions to London has been a perennial fear over the last decade and earlier. There appears little reason to believe that the move to a single European market will make this more likely. Indeed, quite the reverse. The move of the Royal Bank into European markets, its most recent move is the acquisition of a stake in a Portuguese bank, the Banco de Comercio e Industria, in co-operation with the Royal Bank's Spanish partner Banco de Santander, suggests a cautious growth stategy that is more likely to enable control to be retained in Scotland. This view is reinforced by the announcement that the Scottish Equitable has acquired the remaining Kuwaiti stake in the Bank, the Scottish Equitable and Royal having already moved closer with the announcement last October that they were to form a life assurance company aimed at providing life assurance and pensions business to the bank's customers. The massive write-offs of Third World debt by the London-based UK banks continues to keep the domestic UK opposition weak and possibly make the London banks a target for takeovers pre 1992 but there is no particular reason to believe that the Scottish banks are in jeopardy. Concerns have been expressed at the role and exposure of Charterhouse in the leveraged buyout business but the losses do not appear sufficient at the moment to send the Royal Bank desperately searching for partners. Indeed, would the acquisition of the Royal by a European bank necessarily be a bad thing? The experiences of the Clydesdale now owned by the National Australia Bank suggests that foreign owners can in some cases revive institutions with benefits to all.

The Bank of Scotland is safe enough with Standard Life as its major shareholder and appears set to go on growing. Long term mergers between the Standard, Bank of Scotland and the Halifax have been suggested but the prospects appear distant, witness the unravelling in recent years of connections of the London Clearers with regional banks as the needs and concerns of the banks have changed, but in any event it is difficult to see why such a regionally based conglomerate should reduce the position of regional financial centres.

A second important financial activity in Edinburgh revolves around the independent investment managers. The attrition in the investment trust sector has stopped for the moment, although it would be foolhardy to believe that equilibrium has been reached until discounts narrow still further, and most fund managers have been active in acquiring new pension fund and unit trust business. The boom does not appear to be over yet although a change in Government or market collapse could certainly lead to substantial contraction throughout the UK fund management industry. The move to more open financial markets should be a positive feature for this sector. Low costs, a pool of trained talent and good telecommunications are positive incentives for growth only marred by the difficulties of transport to European centres and even these are exaggerated. The recently announced laying-off of staff concerned with settlement procedures in Edinburgh by County NatWest is not a reliable indicator of prospects in the fund management sector.

The third major element of the Scottish financial centre is the Life Assurance companies. Few commentators would regard the larger institutions as under any sort of threat although there has been some concern, fuelled by the takeover of FS Assurance, that the smaller companies may slowly decline. Such a decline whilst a problem for the offices concerned would not appear to be a major threat to Scotland's role as a financial centre given the prospects and recent growth of the larger life offices.

Views of the Scottish life companies are strongly polarised. The life managers on one side of the arena point to the growth of Scottish life offices in UK market share and for some companies at least, low expense ratios. Their critics emphasise a poor record of innovation (hotly disputed), dependence on independent intermediaries, a lack of capital as a result of their mutual structure and the prospect of a significant reduction in demand as the effects of a series of special factors post 1984 are reduced.

The criticisms are no doubt extreme. The success of the Scottish offices in securing market share is a significant achievement. Problems with marketing are being addressed by more formal links with banks and building societies and the move by some of the companies, such as the Life Association of Scotland, into acquiring a direct sales force. The costs of such a development, however, are large and in the absence of shareholders funds would cut into the bonuses of the mutual companies policyholders. However, a gradual move away from dependence on independent intermediaries is discernible with the Scottish Widows, for example, seeking to generate 20% of its business in the future from tied agents. In the absence of strong advantages from any particular distribution channel a diversified approach to sales and marketing appears sensible.

The lack of shareholders capital could be a restriction on the rapid growth of the Scottish mutuals by acquisition but is this such a bad thing? How many of the major banks who acquired securities houses in London in the early 1980's have made money from them or look likely to make money in the foreseeable future? The Scottish life companies have been successful by long term sustained growth based on offering value for money. This surely is the approach they should be following in Europe. The European life industry is in general heavily protected. It is not going to succumb in a short period of time to a Blitzkrieg from UK-based insurers. Success will require planning, knowledge and control. Acquisitions will no doubt help but managers should beware the creation of giant conglomerate insurance companies operating in all the countries of the Community despite very different local rules and conditions. 1992 is unlikely to remove all the important differences between the separate markets. Economies of scale in administration and marketing together with the prospect of faster growth rates in other Community counties are attractive benefits but it is easy to pay fancy prices for acquisitions which require large investments to fit in with existing operations and to achieve economies of scale. Organic, consolidated growth may appear less dynamic but it could be more profitable in the long run. That said, however, Europe requires an initiative from the Scottish companies. There is little reason for them to be adversely affected so long as they grasp the opportunity presented to them and apply the same skills to it as they have in developing their traditional business.

This conclusion flies in the face of those of Allan Hodgson and Ewan Brown in 'Towards 1992: Effects on the Scottish Financial Sector'. They remark on the inadequate capital base of the sector as a whole and note that the mutual status of the life companies limits their ability to acquire other companies other than for cash. However, as the acquisition of the 34% stake in the Bank of Scotland in 1985 illustrated, this need only be a deterrent to the very largest takeover, and it is not clear that this is the best way to proceed.

The conclusions of the above paper that Scotland should aspire to be one of the principal venture centres of Europe and should export its merchant banking skills appear quixotic. Is it really true that these skills are particularly well developed in Scotland and that they are readily exportable? It is difficult to see this as being the case. An apparent, implicit, assumption of the paper is that financial institutions have to be very large to succeed. Has the experience of the larger UK banks been better than that of the smaller ones? Long term strategy in Europe requires building on our strengths. Acquisition is not necessarily the best route to success.

DISTRIBUTIVE TRADES

According to the latest SCBS (which covers the period November 1989 - January 1990), a balance of +46% of Scottish wholesale respondents reported increased sales compared with the preceding three months. A net 17% of wholesalers also recorded increases in employment, with gains in both full-time and part-time jobs.

Comparing the three month wholesale results reported in February with equivalent projections made in November (see December 1989 Commentary), it is clear that the sector performed better during the period than had been expected by member firms. In turn, this unexpectedly good outturn is probably at least partly responsible for Scottish wholesalers being more optimistic in February concerning short-term prospects: a net of 36% of SCBS respondents expected further sales growth between February and April, and a net 10% projected increases in total employment.

Table 1 gives the geographical breakdown of February SCBS wholesale responses. On balance, wholesalers in all Chamber of Commerce areas experienced sales growth between November and January, though net employment increases were only recorded in Glasgow and Aberdeen. On all indicators, both the short-term performance and outlook of wholesalers in the Aberdeen area were particularly good.

Table 1 Geographical Responses to February SCBS - Wholesaling

	Balance of Respondents in				
	G %	E %	D %	A %	All %
Overall Confidence	-33	+31	-3	+23	-3
Actual Sales	+43	+42	+35	+5	+46
Expected Sales	+20	+40	+37	+59	+36
Actual Employment	+7	0	0	+46	+17
Expected Employment	-40	+35	+18	+41	+10
Investment Intentions	+21	+60	+20	+15	+21

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

A net 66% of February SCBS retail respondents reported increased sales over the preceding three months. Of course, this period included Christmas, which generally gives a fillip to retail sales, and although SCBS respondents are asked to exclude seasonal factors, it is frequently difficult for them to do so accurately. In spite of the significant growth in sales, retail employment was essentially static, with a small net fall in full-time employment being effectively offset by an equivalent rise in part-time employment.

Perhaps reflecting growing concern about the effects of continuing high interest rates on consumer expenditure, a net 18% of SCBS retailers were less optimistic in February than they had been three months earlier, though on balance (+25%) respondents expected further sales increases in the short-term. However, a significant net majority (26%) expected employment to decline, entirely concentrated in losses in full-time jobs.

Table 2 Geographical Responses to February SCBS - Retailing

	G %	E %	D %	A %	All %
Overall Confidence	+25	-42	-57	+10	-18
Actual Sales	+55	+41	+65	+92	+66
Expected Sales	+30	+11	+38	+50	+25
Actual Employment	-15	+24	+14	+20	+3
Expected Employment	-40	-64	-13	-41	-26
Investment Intentions	+1	+3	+7	+34	+7

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

The geographical pattern of February SCBS retail responses is shown in Table 2. Net actual and expected sales increases were recorded in all areas, most notably in Aberdeen. In spite of this, net short-term falls in employment were also forecast across the board.

TRANSPORT AND TRANSPORT EQUIPMENT

The major occurrence in this sector is clearly the removal of Prestwick's monopoly of transatlantic flights, a decision which this Commentary has long advocated on the grounds that the airport's gateway status involved wider costs to the Scottish economy. The study undertaken by the Institute which was submitted as evidence to the Department of Transport proved this beyond any real doubt. Among the sampled respondents, for example, it was shown that over 80% of journeys to North America made by Scottish businessmen went via Heathrow, compared to only 15% through Prestwick, and approximately 75% of the 8,000 trips made could have used Glasgow if a daily scheduled service had been available. Over 68% of respondents chose not to use Prestwick because of the inadequate frequency of services and there was also felt to be a lack of North American destinations and feeder services. It was also concluded that the inadequacy of road/rail links to Prestwick from the major population centres were a problem, but that this was only one of a number of major problems and it was clear that while improving such links was a necessary condition for increasing demand at Prestwick, would not in itself have been sufficient to overcome the other problems noted above. Overall, there was clearly substantial discontent over the existing policy and 91% of respondents were in favour of a change in favour of Glasgow.

With regard to the wider losses for the Scottish economy, the study found that a change in policy would bring substantial cost-reduction and employment-creating effects resulting from the diversion of services from Heathrow to Scotland, traffic generating effects, particularly in tourism and previously marginal trips now being undertaken. Costs of the previous policy for Scottish business were estimated as being up to £12m per annum and the study estimated that up to 16,000 new jobs could now be created in Scotland.

In view of the above, particularly the manifest unpopularity of Prestwick amongst business travellers, we firmly believe that the decision (which can properly be called an historic one for Scottish airports) was correct. Arguments must now concentrate on developing a policy which will ensure Prestwick's future. Improvements in surface access from North Ayrshire to the rest of Scotland, the marketing of Prestwick as an international freight and distribution centre and the provision of investment to support Prestwick in this role, are all necessary.

Road

The Scottish Office has announced its disposal plans for the Scottish Bus Group. Disposal will be on a phased basis, with Lowland Scottish likely to be the first company sold, and the whole programme is expected to take about one year to complete. A total of nine new companies will be created. Some safeguards against the creation of a private monopoly of services have been announced, firstly that no one company will be allowed to purchase more than two of the nine, and contiguous companies will not be sold to the same buyer. In addition, the government will grant the same concessions in favour of employee buyouts which were offered at the time of the sale of the national bus company in England, namely that these will be allowed to bid at a 5% discount against outside bids.

Contrary to expectations, Yarrow have failed to win any orders for the latest batch of 3 type 23 frigates, all of which went to Swan Hunter on Tyneside. The company may now be facing up to 1,000 redundancies later this year. As has been discussed before, there is little doubt that Yarrow's is the most cost-effective place to produce the type 23, having been responsible for its design and having invested £8m in a modular hall specially designed for construction of the type 23. There is understandable anger on Clydeside at the decision, which can only be rationalised on economic grounds as a desire on the part of the Navy to avoid dependence on a single supplier, for both competition and security reasons. Yarrow's reaction has been to seek the next batch of orders with renewed vigour and, in addition, has recently announced plans to modify the basic type 23 design into a new "super-frigate" which it believes will appeal to all NATO countries. For the present, however, the thousand or so jobs on Clydeside are heavily dependent on Yarrow's winning at least some of the next batch of orders, expected next year.

Finally, Kvaerner, Govan is to invest £11m in a new assembly shop which will make the large cargo tanks for the company's liquified petroleum gas (LPG) tankers. This is part of an overall £26m investment programme which will take place between now and 1992. The project was grant aided from the Scottish Office to the extent of £3m.

† The necessary measures have recently been discussed in Stevens, J and Dunlop S, 'Scottish Lowlands Airports Policy: Prospect - Retrospect'. Fraser of Allander Institute, Quarterly Economic Commentary, September 1989, pp54-83.

HEALTH

Government allocations to Scottish Health Boards for 1990-91 have been announced. The total sum is £2061 million for gross recurrent spending, an 8.3% increase on 1989-90. This is a real terms increase of 3.17% according to the Scottish Health Minister. The figure includes £89M for specific commitments including the NHS Review, nurse training, and Aids, and a further £36M for projects such as waiting list initiatives and breast cancer screening.

The Health Minister claims that these figures demonstrate the Government's commitment to the health service in Scotland. His political opponents beg to disagree, and the familiar cry of "underfunding" is heard again. In a relatively quiet quarter for the health sector in Scotland (with the notable exception of the ambulance dispute) the loudest noises surround the budget "crisis" at Lothian Health Board with the occasional rumble from Greater Glasgow, where the management proceeds apace with proposals to put to tender all manner of activities, including laboratory services and medical records as well as the usual "domestic" services, and where nurses in training claim there are not enough jobs for them on completion of their training. The Lothian situation provides a microcosm of the debate in the NHS concerning levels of resources and their "efficient" use. The latest "forecast" from "well-placed insiders on Lothian Health Board" (Observer Scotland 25 February 1990) is a £27M deficit, based on, inter alia, an £8.2M deficit for the current year, a similar operating deficit for next year, a decline in the real value of next year's allocation (a figure that might be disputed by SHHD on the basis of an 8.2% announced increase), and the effect of the annual 1% efficiency savings demanded by the Scottish Office. For Don Cruikshank, the recently appointed NHS chief executive in Scotland, backed by a report from Peat, Marwick and McLintock, the current deficit is the result of mismanagement. This is strongly disputed by at least some elements on the Lothian Board and by Labour politicians who largely blame government underfunding. If the mismanagement/in-efficiency view wins the day then some very disruptive resource reallocation decisions will have to be taken in Lothian.

On the NHS Review front little has been heard. Health Boards are believed to be busy on such complex tasks as valuing their capital resources for the new capital charging system: the sceptics wait to see just what sort of results appear from this activity since, in common with other Working Papers related to the White Paper "Working For Patients", detailed practical advice is in short supply in the paper on capital charging. Scottish hospitals do not appear to be queuing up to "opt out", i.e. take Hospital Trust status, although it was reported that the new district general hospital in Ayrshire, due to open next year, might be a candidate, thus raising the possibility that the hospital would opt out before it was in, so to speak.

The Labour Market

As past Commentaries have noted, recent experience of changes in official estimates of employment data serves to 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, it is clear from the recently published results of the 1987 Census of Employment that LFS estimates over-estimated the extend of under-recording of employment.

The revisions to the estimates of the numbers of employees in employment in Scotland generated by the September 1987 census 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 revised estimates show 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 has 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.

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 are apparently equally 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 composition of the downward revision to the numbers of employees in employment, 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.

The most recent employment data (available only on the basis of census induced revisions) are for September 1989, and those are also reported in Tables 1 and 2. Overall, total employees in employment increased by 7,000 (0.4%) in the year to September 1989. Male employees in employment rose by 4,000 (0.4%), and total female employment increased by 2,000 (0.2%). Unusually relative to recent experience, part-time female employment fell significantly by 11,000 and (3.0%), whereas full-time female employment grew by some 13,000 or 2.4%. Accordingly, full-time equivalent employment actually increased by more than the numbers employed over the year to September 1989. If part-time is interpreted as "one-third time", then full time equivalent employment rose by about 13,000 (0.6%). Although this is a very modest employment gain the pick up in male and female full-time employment is encouragingly relative to past experience. Five thousand of the increased employment occurred in production and construction industries, and 2000 in services.

Over the year to September 1989 the biggest employment gains were registered by: banking, insurance and finance (4,000) and wholesale distribution, hotels and catering (4,000). The major employment loss of 7,000 was incurred by public administration and defence.

Table 3 provides some idea of the regional changes in employment which occurred in employment between the last two censuses. Clearly, over the three year period to September 1987 Scotland fared worst of all, being the only region to register a fall in employees in employment (of 23,000 or 1.2%), whilst the UK as a whole experienced a 2% growth in employment. Since then Scotland has experienced employment growth although, together with Yorkshire and Humberside and the North, this growth has been comparatively modest in scale

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)

	Male	Female All	Female Part-time	Total	Production & construc. industries	Production industries	Manufacturing industries	Services industries
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1986 Sept	1,020	866	367	1,886	595	460	409	1,261
Dec	1,006	868	375	1,874	586	451	404	1,259
1987 Mar	997	865	375	1,862	578	442	396	1,254
June	1,006	880	379	1,886	579	441	395	1,277
	(1,010)	(882)		(1,892)				
Sept	1,001	878	383	1,879	577	437	392	1,273
	(1,011)	(884)	(381)	(1,895)	(584)	(442)	(397)	(1,283)
Dec	996	881	389	1,877	572	432	388	1,278
	(1,012)	(891)	(385)	(1,903)	(582)	(440)	(395)	(1,294)
1988 Mar	989	879	387	1,868	570	429	386	1,271
	(1,010)	(893)	(381)	(1,903)	(584)	(439)	(396)	(1,292)
	[1,013]	[880]	[362]	[1,893]	[591]	[464]	[408]	[1,274]
June	996	892	389	1,888	568	427	385	1,292
	(1,020)	(908)	(383)	(1,928)	(584)	(439)	(396)	(1,316)
	[1,021]	[890]	[361]	[1911]	[592]	[466]	[408]	[1,290]
Sept	992	892	389	1,884	569	427	387	1,287
	(1,022)	(910)	(382)	(1,932)	(588)	(443)	(400)	(1,315)
	[1,027]	[896]	[362]	[1,922]	[598]	[473]	[415]	[1,295]
Dec	(1,020)	(923)	(396)	(1,942)	(589)	(443)	(402)	(1,327)
	[1,015]	[900]	[370]	[1,915]	[600]	[476]	[418]	[1,287]
1989 Mar	(1,015)	(914)	(387)	(1,929)	(587)	(440)	(401)	(1,314)
	[1,015]	[895]	[361]	[1,910]	[597]	[473]	[415]	[1,284]
Jun	[1,017]	[906]	[367]	[1,923]	[595]	[470]	[412]	[1,299]
Sept	[1,031]	[898]	[351]	[1,929]	[603]	[477]	[419]	[1,297]

Source: Department of Employment Gazette, November 1989 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)	[164]	166 (172)	[204]	142 (145)	[125]
	Dec	(27)	[28]	(41)	[58]	(48)	[48]	(183)	[165]	(171)	[205]	(146)	[124]
1989	Mar	(27)	[28]	(40)	[57]	(48)	[48]	(185)	[166]	(168)	[202]	(147)	[124]
	June		[29]		[58]		[47]		[164]		[201]		[125]
	Sept		[30]		[58]		[48]		[165]		[206]		[126]

(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) [190]	185 (188) [182]	103 (106) [117]	174 (179) [168]	178 (184) [187]	443 (451)[451]
Dec	(205) [186]	(188) [186]	(106) [114]	(179) [167]	(175) [178]	(469) [455]
1989 Mar	(201) [186]	(188) [182]	(104) [115]	(183) [170]	(168) [178]	(469) [454]
June	[194]	[184]	[115]	[172]	[179]	[455]
Sept	[194]	[184]	[116]	[172]	[180]	[451]

Source: Department of Employment Gazette

Table 3 Employees in employment in the UK, September 1984 and September 1987 by region

Thousands

	Census 1984	Census 1987	Change Number	Change %
South East	7,219	7,400	+182	+2.5
East Anglia	717	739	+22	+3.0
South West	1,553	1,628	+76	+4.9
West Midlands	1,981	1,989	+8	+0.4
East Midlands	1,457	1,508	+51	+3.5
Yorkshire & Humberside	1,774	1,783	+9	+0.5
North West	2,296	2,345	+49	+2.1
North	1,060	1,074	+14	+1.3
Wales	886	924	+38	+4.3
Scotland	1,904	1,881	-23	-1.2
Great Britain	20,846	21,271	+425	+2.0
N. Ireland	500	507	+7	+1.4
United Kingdom	21,346	21,778	+432	+2.0

Source: Employment Gazette, October 1989

(e.g. 0.7% over the year to March 1989 compared to a UK average of 1.4%)

Vacancies: Stocks and Flows

Over the year to January 1990 unfilled vacancies at job centres in Scotland fluctuated between 19.8 (17.0) and 24.7 (25.3) thousands on a seasonally adjusted (unadjusted) basis (Table 4). 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 5). These were of a similar order of magnitude to the outstanding stock of vacancies in each month. For example, in January 1990 inflows of 19.8 thousand (over 6,000 less than the previous year) were nearly matched by outflows of 20.1 thousand. Accordingly, during 1988 there was a total of over 240,000 vacancies at job centres, well over 80% of which resulted in placings. The short average duration of vacancies is a sign that employers on

Table 4 Unfilled Vacancies at Jobcentres - Scotland Vacancies at Jobcentres (Thousands)

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

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

Source: Employment Department Press Notice

Table 5: Vacancy flows at Jobcentres, standardised, seasonally adjusted
Scotland

Thousands of which:

Date		In-flow Level	In-flow Average change 3 months ended	Out-flow Level	Out-flow Average change 3 months ended	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

Source: Department of Employment

Table 6 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	Chge. since previous month	Av.chge 6 months ending	Unemp rate percentage of working pop.
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(r)	(153.0)	(57.5)	(210.5)	(-4.3)	(-4.1)	(8.5)
1990	Jan(p)	(150.3)	(56.4)	(206.7)	(-3.8)	(-4.4)	(8.3)

Source: Department of Employment Press Notices
(p)provisional and subject to revision (r) Revised

Table 7: 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

* The September figures are biased by the postal strike.

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 6. 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 now entitled to claim benefit and so are excluded from the unemployment count. Table 6 presents a short time series of unemployment in the old as well as the new basis to facilitate comparison.

January saw a fall of some 3.8 thousand (0.2 percentage points) in total unemployment (of which 2.7 thousand was attributable to males and 1.1 to females). Over the year to January 1990 total unemployment fell by about 50 thousand, from 256.6 thousand or 2 full percentage points. This represents a reduction in the level of unemployment of 19.5 per cent which, of course, constitutes rather good news for the Scottish labour market. Furthermore, 34,000 of the reduction occurred among males and around 16,000 among females.

Table 7 presents recent flows into and out of the unemployment stock. In January 1990 inflows were at 29.7 thousand, about 2.5 thousand less than in the same month of 1989, although outflows were, at 22.9 thousand, 4,000 less than in January 1989. Although gross outflows in January were rather low by recent standards, if they were maintained the unemployment stocks of 220,000 would turnover in less than 7 months.

SCOTTISH INDUSTRIAL RELATIONS

The engineering workers stoppage in support of the 35 hour week continues to be a significant dispute in Scottish industrial relations, although now involving other companies, as those originally targeted by the CSEU have settled the dispute by local agreements. Whilst the outcome may well be the introduction of the 37 hour week, a consequence of the dispute will be a weakening of the national system of bargaining; company or enterprise bargaining will become the dominant pattern within the industry.

The second long running dispute of 1989 invloved journalists at the Aberdeen based d and Journal. Attempts to reach a compromise have lessened both the significance and support for the dispute.

The first report by the Scottish Low Pay Unit, based on a survey of Scottish Job Centres, provides some evidence as to trends in pay and employment in Scotland. More than 40% of the jobs listed had pay rates of under £3.78 and more than one third were either part time or temporary. Whilst the survey was incomplete, it nevertheless raises some concerns as to the patterns of employment and wages, especially given current Government proposals to abolish Wages Councils.

ESOPs, Employee Share Ownership Programmes, may feature more prominently in Scottish employee relations programmes given the indication that buy out bids by the employees are to be given a price preference in the privatisation of the Scottish Bus Group. Such schemes are an attempt to ensure that the employees retain control of the organisation and yet allow individual employees to sell their shares should they so wish.

The National Economic Development Office's study " Managing for Change " provides an insight as to some of the more successful managing strategies of managing staff. The report highlighted Digital Equipment policies which encourages management by consensus, innovation, training and the development of employees as an example of progressive management. Such styles of management which encourage self control, participation and open management seem curiously at odds with the style of management in a number of the health boards in Scotland where secrecy, bureaucracy and the replacement of staff who oppose change appear to be the norm. If the path towards efficiency is one which encourages staff and involves them it is even more surprising that such policies are not being stressed by the larger Health Boards.

Regional Review

INTRODUCTION

In the last section, **The Labour Market**, changes in Scottish employment patterns were analysed. However, it is recognised that movements in the labour market not only differ between Scotland and the UK as a whole, but also within Scotland. The purpose of this Regional Review is to examine sub-Scottish changes in the unemployment situation and to highlight the inter-regional variations which have occurred intra-regional disparities are also considered.

In the last section, the data used was typically adjusted for seasonal factors. Data availability necessitates that unadjusted figures be used in this section and this should be recognised when considering tables which compare current unemployment with that which prevailed last quarter and last month. At last however, it is possible to compare current figures directly with those of twelve months ago since the Social Security reforms introduced in September 1988 no longer cloud the annual shifts.

In the last **Commentary** workforce-based sub-Scottish unemployment rates were utilised for the first time. Previously, unemployment rates for local authority regions were calculated using a narrow definition of the workforce which included only employees in employment and the unemployed. The wider rate also includes in its definition of the workforce, the self-employed, HM Forces and those on work-related government training programmes. As in December's issue of the **Commentary** we will on the whole continue to use both types of unemployment rates but in assessing intra-regional variations in unemployment only the wide-based rates have been used. Separate male and female unemployment rates have been reintroduced.

Total unemployment

Table 1 shows for each local authority region and Scotland as a whole, the narrow and wide unemployment rate, the numbers unemployed in January 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 unemployment data means that interpretation of these short term shifts, is required. While they may be indicative of underlying or developing trends, they are more useful for the purpose of drawing inter-regional comparisons.

In the twelve months to January 1990, total unemployment in Scotland fell by 49,867, a drop of 18.5%, to stand at 219,176. This has resulted in a further drop in the unemployment rate which, using the wide definition of the workforce, stands at 8.8%. 10% of the narrowly defined workforce is unemployed which is an improvement on last year's 10.8%. However, there is an increase in total unemployment compared with the situation last quarter and last month. In the three months since October 1989, unemployment has risen by 5,051 or 2.4% which is equivalent to a 0.2% increase in the work-force based unemployment rate. There was a 3% increase in the monthly unemployment totals, a rise of some 6,315. Whilst these increases may be due to seasonal factors, it seems likely that since throughout Scotland increases have been witnessed, the underlying trend is to some degree one of increasing unemployment.

In the last year, there were declines in the numbers out of work in all local authority regions. As was the case last quarter, Shetland Isles witnessed the most substantial proportional decline in unemployment totals with a 36.7% reduction in annual unemployment totals. Grampian continued to be the mainland region with the biggest reduction with 4,510 fewer people employed in January this year compared with twelve months previous. Orkney and the Western Isles also experienced noticeably above average declines of 27.7% and 25%. The same four regions which experienced below average proportional declines in annual unemployment totals last quarter, again saw reductions less than the 18.5% norm. for Scotland. Just under half of the decline in Scottish total is attributable to the 24,228 fall in Strathclyde but this is only equivalent to 16.5% of the January 1989 total. The Borders again witnessed the least decline with only 13.1% fewer unemployed at the start of this year compared with last. Below average declines were also recorded in Central and Tayside with respective falls of 16.9% and 17.7%.

Table 1: Unemployment by region

	% rate Jan 90 Narrow	Wide	Total Jan 90	Total Jan 89	Total Annual Change	% Change in Annual Totals	Total Oct 89	Total Quarterly Change	% Change in Quarterly Totals	Total Dec 89	Total Monthly Change	% Change in Monthly Totals
Borders	6.0	5.0	2432	2798	-366	-13.1	2087	345	16.5	2275	157	6.9
Central	10.4	9.1	10956	13192	-2236	-16.9	10834	122	1.1	10593	363	3.4
Dumfries & Galloway	8.6	7.0	4933	6324	-1391	-22.0	4352	581	13.4	4628	305	6.6
Fife	10.4	9.3	13415	16732	-3317	-19.8	13244	171	1.3	13020	395	3.0
Grampian	4.8	4.2	11296	15806	-4510	-28.5	11090	206	1.9	10979	317	2.9
Highland	10.6	8.9	8892	11408	-2516	-22.1	7636	1256	16.4	8612	280	3.3
Lothian	7.4	6.7	27037	34068	-7031	-20.6	26864	173	0.6	26284	753	2.9
Strathclyde	12.4	11.1	122328	146556	-24228	-16.5	120697	1631	1.4	118828	3500	2.9
Tayside	9.0	7.9	15317	18605	-3288	-17.7	14959	358	2.4	15123	194	1.3
Orkney Islands	7.4	5.3	519	718	-199	-27.7	493	26	5.3	501	18	3.6
Shetland Islands	4.1	3.4	416	657	-241	-36.7	410	6	1.5	402	14	3.5
Western Isles	14.6	11.7	1635	2179	-544	-25.0	1459	176	12.1	1616	19	1.2
Scotland	10.0	8.8	219176	269043	-49867	-18.5	214125	5051	2.4	212861	6315	3.0

Source: Department of Employment

Table 2: Male unemployment by region

	Unemployment Rate January 90 Narrow	Wide	Total Jan 89	Total Jan 89	Total Annual Change	% Change in Annual Totals	Total Oct 90	Total Quarterly Change	% Change in Quarterly Totals	Total Dec 89	Total Monthly Change	% Change in Monthly Totals
Borders	7.5	5.8	1674	1913	-239	-12.5	1444	230	15.9	1577	97	6.2
Central	13.3	11.3	7765	9148	-1383	-15.1	7494	271	3.6	7499	266	3.5
Dumfries & Galloway	10.1	7.6	3190	4036	-846	-21.0	2840	350	12.3	3003	187	6.2
Fife	13.3	11.3	9465	11613	-2148	-18.5	9177	288	3.1	9167	298	3.3
Grampian	5.7	4.7	7683	10638	-2955	-27.8	7440	243	3.3	7499	184	2.5
Highland	12.7	10.0	5957	7738	-1781	-23.0	5347	610	11.4	5742	215	3.7
Lothian	10.1	8.8	19934	24520	-4586	-18.7	19591	343	1.8	19492	442	2.3
Strathclyde	16.5	14.3	91656	108541	-16885	-15.6	89914	1742	1.9	89160	2496	2.8
Tayside	11.5	9.6	10681	12961	-2280	-17.6	10393	288	2.8	10561	120	1.1
Orkney Islands	9.3	6.0	352	479	-127	-26.5	319	33	10.3	337	15	4.5
Shetland Islands	4.6	3.5	269	412	-143	-34.7	256	13	5.1	260	9	3.5
Western Isles	19.7	14.4	1254	1690	-436	-25.8	1124	130	11.6	1249	5	0.4
Scotland	13.0	11.1	159880	193689	-33809	-17.4	155339	4541	2.9	155546	4334	2.8

Source: Department of Employment

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 disparity is greatest between the island areas with the Western Isles having the highest unemployment rate and Shetland the lowest. On the narrow measure, the rate in the Western Isles is 14.6% with Strathclyde exhibiting the next highest rate at 12.4%. Rates in excess of the 10% Scottish average were recorded for Highland (10.6%), Central (10.4%) and Fife (10.4%). At the other end of the scale, 4.1% of the narrowly defined workforce in Shetland are out of work. In Grampian, the rate is also low at 4.8% and despite the Borders witnessing the most modest fall in annual totals, the unemployment rate is still comparatively low at 6.0%. Analysis of the wide-based unemployment rates reveal a similar picture with the Western Isles (11.7%) and Strathclyde (11.1%), still having rates in excess of the Scottish 8.8% average. Shetland again has the lowest rate at 3.4% with Grampian the next closest at 4.2%. The primary difference between the two rates is the numbers in each area who are the self-employed, those in HM Forces and those on government related training programmes. The difference between the two rates is greatest in the Western Isles (2.9%), Orkney (2.1%), Highland (1.7%) and Dumfries and Galloway (1.6%). This is probably a reflection of the concentration of agricultural and fishing activity characteristic in these areas and the higher levels of self-employment associated with these industries.

In each local authority area, there was a decline in unemployment between January 1989 and 1990. However, analysis of the quarterly and monthly changes suggest that this trend is being reversed.

In the three months to January unemployment increased in all regions and Islands although again there were variations in the magnitude of these changes. Highland and the Borders saw the greatest increases in unemployment with 16.5% and 16.4% proportional increases in the quarter to January 1990. Excess increases were also experienced in Dumfries and Galloway (13.4%) and the Western Isles (12.19%). The smallest increase was recorded in Lothian with 173 more unemployed in January compared with October. The increase in Central was 1.1% and below average increases were noted for Fife (1.3%), Strathclyde (1.4%), the Shetland Isles (1.5%) and Grampian (1.9%).

Less variation in the magnitude of change is evident for the monthly changes in unemployment total. The most substantial increases were seen in the Borders (6.9%) and Dumfries and Galloway (6.6%). The smallest increases were recorded in the Western Isles (1.2%) and Tayside (1.3%). With the Scottish average being an increase of 3% in the monthly unemployment totals, this may be an early indication that unemployment in Scotland is again on an increasing trend.

Male unemployment

Data relating to male unemployment is presented in Table 2. Male unemployment totals in Scotland fell by 17.4% in the last twelve months, a proportional fall less than the 18.5% seen in total unemployment figures.

All areas experienced a decline in male unemployment with the % change in annual totals greater in the Shetland Isles and Grampian which most likely reflects the healthy state of the oil industry in these areas. Orkney and Shetland fared well with drops of 26.5% and 25.8%. Declines in excess of 20% were also seen in Highland and Dumfries and Galloway. The change was smallest in the Borders with a drop of 12.5% but below average reductions were also seen in Central (15.1%) and Strathclyde (15.6%).

The pattern of male unemployment rates is not dissimilar to that for total unemployment but is generally higher. The narrow male unemployment rate is 13%, some 3% above the total unemployment rate. The percentage of the workforce unable to find work is greatest in the Western Isles with a rate of 19.7% and again Strathclyde has the highest mainland rate at 16.5%. The rate is lowest in Shetland and Grampian with respective rates of 4.6% and 5.7%. A similar picture emerges from examining the wide based unemployment rate but the differential between the Western Isles and Strathclyde is considerably narrowed to only 0.1%.

As with total unemployment, all regions saw an increase in male unemployment between October and January. The biggest increase in totals occurred in the Borders with an increase of 15.9%. Dumfries and Galloway (12.3%), Highland (11.4%) and the Orkney Isles (10.3%) also saw notable increases. Lothian and Strathclyde witnessed the smallest increases (in proportional terms) with increases of 1.8% and 1.9% respectively.

Table 3: Female unemployment by region

	Unemployment Rate January 1990 Narrow	Wide	Total Jan 90	Total Jan 89	Total Annual Change	% Change in Annual Totals	Total Oct 89	Total Quarterly Change	% Change in Quarterly Totals	Total Dec 89	Total Monthly Change	% Change in Monthly Totals
Borders	4.1	3.7	758	885	-127	-14.4	643	115	17.9	698	60	8.6
Central	6.7	6.2	3191	4044	-853	-21.1	3340	-149	-4.5	3094	97	3.1
Dumfries & Galloway	6.8	6.2	1743	2288	-545	-23.8	1512	231	15.3	1625	118	7.3
Fife	6.9	6.4	3950	5119	-1169	-22.8	4067	-117	-2.9	3853	97	2.5
Grampian	3.6	3.4	3613	5168	-1555	-30.1	3650	-37	-1.0	3480	133	3.8
Highland	7.9	7.2	2935	3670	-735	-20.0	2289	646	28.2	2870	65	2.3
Lothian	4.2	4.6	7103	9548	-2445	-25.6	7273	-170	-2.3	6792	311	4.6
Strathclyde	7.2	6.7	30672	38015	-7343	-19.3	30783	-111	-0.4	29668	1004	3.4
Tayside	6.0	5.6	4636	5644	-1008	-17.9	4566	70	1.5	4562	74	1.6
Orkney Islands	5.2	4.4	167	239	-72	-30.1	174	-7	-4.0	164	3	1.8
Shetland Islands	3.3	3.1	147	245	-98	-40.0	154	-7	-4.5	142	5	3.5
Western Isles	7.9	7.3	381	489	-108	-22.1	335	46	13.7	367	14	3.8
Scotland	6.1	5.7	59296	75354	-16058	-21.3	58786	510	0.9	57315	1981	3.5

Source: Department of Employment

For Scotland as a whole, male unemployment increased by 2.8% between December and January and increases were seen in all local authority areas. The increase was greatest in the Borders and Dumfries and Galloway with both areas seeing increases of 6.2%. The increase was next moderate in the Western Isles where the proportional change was only 0.4%. On the mainland, the increase was most moderate in Tayside with only a 1.1% increase. Again this may be indicative of a changing trend.

Female unemployment

In the twelve months to January 1950 female unemployment fell by 21.3% to stand at 59,296. This represents 5.7% of the female workforce or (6.1% of the narrowly defined workforce) which is well below the total unemployment rate. There were increases in female unemployment in both the quarter and the month to January 1990 but there were notable variations between the regions.

Throughout Scotland there were declines in female unemployment over the year. The reduction was greatest in the Shetland Isles with a drop of 40% of the January 1989 total. In both Grampian and Orkney, falls of 30.1% were recorded and other areas experiencing reductions in excess of the 21.3% average for Scotland were Lothian (25.8%) and the Western Isles (22.1%). The fall was smallest in the Borders (14.4%).

Female unemployment rates follow a similar pattern to that for male rates and total rates. Shetland was the lowest rate with 3.3% of the female workforce out of work. Grampian also has a low rate of 3.6% and the Borders and Lothian with respective rates of 4.1% and 4.2% also have comparatively healthy female labour markets.

Analysis of the changes in female unemployment totals over the three months to January 1990 reveal a different picture from the quarterly changes in the male labour force. Seven of the twelve authorities saw decreases in female unemployment with the largest reduction in Central and Shetland where the proportional changes were 4.5%. In Strathclyde the fall was only 0.4% of the October total and whilst the reductions were generally moderate in size, proportionally the increases were much greater. Between October and January, there was a 28.2% increase in female unemployment. The increases in the Borders (17.9%), Dumfries and Galloway (15.3%) and the Western Isles (13.7%) were also significant. The net effect of these changes was a moderate quarterly increase in female unemployment of 0.9%. The significant variations both within Scotland and compared with changes in male unemployment may reflect the more seasonal nature of female unemployment patterns.

Female unemployment rose in all local authority areas between December and January. The increase was greatest in the Borders with a % change of 8.6 in monthly total. Tayside saw the most moderate increase of 1.6% with Orkney a close second (1.8%).

Vacancy levels

The relationship between unemployment and vacancy levels is addressed in Table 4. The number of vacancies reported in each local authority area is

Table 4 Registered vacancies* and unemployment/vacancy (U/V) ratios by region, January 1990

	Total Vacancies+		U/V Ratio+	
Borders	430	(559)	5.66	(3.73)
Central	1268	(1402)	8.64	(7.73)
Dumfries & G/way	435	(585)	11.34	(7.44)
Fife	912	(1091)	14.71	(12.14)
Grampian	3283	(3554)	3.44	(3.12)
Highland	947	(1302)	9.39	(5.86)
Lothian	2591	(3892)	10.43	(6.90)
Strathclyde	9737	(11639)	12.56	(10.37)
Tayside	1130	(1778)	13.55	(8.41)
Orkney Is.	66	(70)	7.86	(7.04)
Shetland Is.	65	(75)	6.40	(5.47)
Western Is.	46	(70)	35.54	(20.84)
Scotland	20910	(26017)	10.48	(8.23)

* Unfilled Vacancies at Job Centres and Careers Offices.

\+ Figures in brackets refer to the situation last quarter (July 1989)

Source: Department of Employment

Table 5: TTWAs with unemployment rates above the Scottish and regional average, July 1989

	No of TTWAs	No above Scottish Average+	No above Regional Average+
Borders	5	0 (0)	3 (3)
Central	3	2 (2)	1 (1)
Dumfries & G/way	7	3 (2)	3 (3)
Fife	3	2 (2)	1 (2)
Grampian	9	1 (1)	8 (8)
Highland	8	5 (3)	5 (4)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	9 (7)	4 (5)
Tayside	7	2 (2)	2 (2)
Scotland	57	25 (20)	28 (29)

+ Figures in brackets refer to the situation last quarter (Oct 1989).

Source: Department of Employment.

presented along with an unemployment/vacancy ratio calculated using the figures contained in Table 1. Comparing the number of vacancies with unemployment levels can be useful but caution must be exercised for a number of reasons.

Data is only available on unfilled vacancies notified to Job Centres and Careers Offices. But nationally only about one-third of vacancies are notified 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.

Job Centres mainly deal with openings for over 18s whilst Careers Offices deal with opportunities for young persons under 18 years of age. Vacancies are usually recorded 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 to be some evidence of measurement error as a result.

The unemployment/vacancy ratio is intended to give a broad indication of the numbers of registered unemployed people competing for each vacancy. However, since registered vacancies represent only a proportion of the total number of unfilled jobs, the real unemployment/vacancy ratio will be lower than as indicated in the table. This effect will be partly offset by the fact that not only registered unemployed people are likely to be competing for the vacancies.

In January 1990, there were 20,910 unfilled vacancies notified to Job Centres and Careers Offices. This is 19.6% down on vacancies reported in October and this will to some degree reflect seasonal factors as industries prepared for Christmas. All regions saw falls in the level of vacancies over the quarter which suggests that not all of the change is attributable to seasonal variations. Proportionally, the fall was greatest in Tayside where there were 36.4% fewer vacancies in January compared with October. The least significant fall was noted for Orkney.

Declines in vacancy levels coupled with quarterly increases in unemployment have resulted in increases in unemployment/vacancy ratios throughout Scotland. The ratio is greatest in the Western Isles where it is 35.54, a big increase on last quarters 20.84 . This is more than double the next highest level as seen in Fife where it is 14.71. Ratios in excess of the 10.48 average for Scotland were noted for Tayside (13.55), Strathclyde (12.56) and Dumfries and Galloway (11.34). The ratio is largest in Grampian where it is 3.44 with the Borders the next closest at 5.66.

Intra-regional variations

From Tables 1 to 4 it can be seen that there are significant variations in the fortunes of regional labour market located throughout Scotland. Within these local authority boundaries however, 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 in unemployment situations which occur within Orkney, Shetland and the Western Isles cannot be drawn

Table 6 TTWAs with highest and lowest unemployment rates

		Unemployment Rates+		High - Low+		High / Low+	
Borders	H Peebles	7.0	(6.1)	3.2	(2.8)	1.84	(1.85)
	L Galashiels	3.8	(3.3)				
Central	H Alloa	11.9	(11.9)	4.4	(4.4)	1.59	(1.59)
	L Stirling	7.5	(7.5)				
Dumfries & G/way	H Cumnock/Sanquhar	16.6	(17.7)	11.0	(13.2)	2.96	(3.93)
	L Annan	5.6	(4.5)				
Fife	H Kirkcaldy	10.3	(10.0)	4.5	(4.4)	1.78	(1.79)
	L North East Fife	5.8	(5.6)				
Grampian	H Forres	11.9	(11.8)	8.6	(8.5)	3.61	(3.58)
	L Aberdeen	3.3	(3.3)				
Highland	H Sutherland	13.2	(11.2)	5.9	(4.7)	1.81	(1.72)
	L Inverness	7.3	(6.5)				
Lothian	H Bathgate	9.7	(9.3)	4.4	(4.8)	1.83	(2.07)
	L Haddington	5.3	(4.5)				
Strathclyde	H Greenock	14.2	(13.7)	7.3	(8.5)	2.06	(2.63)
	L Oban	6.9	(5.2)				
Tayside	H Arbroath	9.3	(8.8)	3.6	(3.5)	1.63	(1.66)
	L Perth/Crieff	5.7	(5.3)				

+ Figures in bracket refer to the situation last quarter (October '89)

Source: Department of Employment.

from TTWA statistics. They are thus excluded from the following tables. In this section we have focused only on the wider based unemployment rates.

Table 5 indicates the number of TTWAs contained in each region and the number of TTWAs with unemployment rates in excess of the Scottish and regional average. If the majority of a region's TTWAs have unemployment rates above the Scottish average then this is an indication of a general high unemployment area. The Borders is a good example of the converse with none of the TTWAs contained within the region having unemployment rates above that average for Scotland. Grampian is also a good example with all but one of the nine TTWAs having rates below Scotland. Strathclyde provides an example of an area generally characterised by high unemployment with nine of the regions twelve TTWAs having unemployment rates above the Scottish 8.8%.

Comparing the unemployment rates in TTWAs with the regional average is useful in identifying intra-regional areas with significantly above or below average unemployment. If the majority of a regions 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 the case with eight of the nine TTWAs having unemployment rates above the regional average. It is the large, low-rate Aberdeen which is pulling down the regional employment rate. Tayside illustrates the reverse with Arbroath pulling up the regional averages.

Further indicators of the intra-regional distribution of unemployment can be gleaned from comparison of the highest and lowest TTWA unemployment rate to be found in each region as indicated in Table 6. 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 within the unemployment rate in Cumnock and Sanquhar some 11% more than in Annan. However, this is slightly lower than the 13.2% range reported last quarter. The range is smallest in the Borders where 3.2% separate the rate in Peebles and Galashiels. Last quarter, the range was only 2.8%.

The ratio of unemployment rates is greatest in Grampian where unemployment in Forres is 3.61 time greater than the rate in Aberdeen. A high ratio is also evident in Dumfries and Galloway where it is 2.96. The ratio is lowest in Central where it is 1.59 but it is also low in Tayside 1.63.