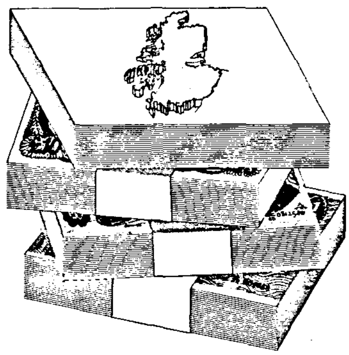
The Scottish Economy

Industrial Performance



BUSINESS SURVEYS

Together the Scottish Chambers' Business Survey (SCBS) and the CBI's Industrial Trends provide a reasonable guide to current and recent trends in the Scottish economy. Both surveys are carried out quarterly with the results being derived from the memberships of the Chambers of Commerce and the CBI. There are important differences between them in that the SCBS provides a geographical breakdown of responses, whilst the CBI provides information on trends by size of firm. Also, the CBI survey provides information on sectoral employment patterns, whilst the SCBS distinguishes between full and part-time employment. Unlike the CBI, the SCBS covers not only manufacturing, but also includes construction, wholesale distribution, retail distribution and financial institutions.

The November SCBS was conducted during the period between Monday 9 October and Wednesday 15 October and refers to the period August to October. Over this period, growing inflationary pressures prompted interest rate increases and a large balance of payments deficit.

SCBS

Respondents to the SCBS have never been so pessimistic in their outlook since the Survey began in 1984 with optimism in all sectors being the lowest recorded. This is in line with the CBI survey in which manufacturing optimism is at its lowest level for 7 years.

In the manufacturing sectors, all areas with the exception of Dundee were pessimistic i.e. returned negative balance of optimism figures. All sectors returned negative balance of optimism figures, namely: "textiles" -68%; "electronics" -54%; "paper etc." -36%; "metal manufacture and metal goods" -22%; "chemicals" -17%; "mechanical engineering" -14%; "other engineering" -14%; "food, drink and tobacco" -5%; and "miscellaneous manufacturing" -59%.

On balance, respondents reported downward trends in both new orders and new sales during the three months to October to Scotland and to the rest of the UK. Sales and orders to the rest of the world were on balance, positive although not as strong as in the previous SCBS.

Employment levels, on balance, appear to have risen, but in fact the majority of respondents reported unchanged employment levels. The fall in employment, anticipated from the previous Survey did not occur.

Investment intentions have fallen for manufacturing respondents since the previous Survey. This may be the result of high interest rates to the extent that they are thought to deter potential investors; evidence of this is unclear however. An indirect threat to investment could materialise through wage pressures, induced by the accelerating inflation rate. If this earnings growth is not matched by productivity increases, then this may, in the short-run, erode profits and lead to planned investment projects being curtailed.

The distributive sectors of the Scottish economy, according to the SCBS were considerably more pessimistic than was the case in the August SCBS.

The balance of optimism in the retailing sector was negative for only the second time since the Survey began. Aberdeen was the only Chamber to return a positive balance, this optimism in part due to the good conditions in the local economy. For the four Chambers a net of firms experienced an increase in the volume of sales as was anticipated the previous Survey. However, this positive balance of +44% is expected to decline to +3% during the current quarter.

For a net of firms, employment in the retail sector rose, however a balance of -5% of respondents expect it to fall (excluding seasonal factors). Part-time employment however is expected to increase.

For both Scottish wholesalers and retailers, the factor most likely to limit sales during the current quarter is credit facilities. The balance of personal advances from financial institutions is down from +48% in the previous Survey to -13%; it would therefore appear that interest rates are affecting consumers' consumption.

The wholesaling sector was also very pessimistic in all Chambers. Sales, during the previous quarter were still buoyant but are expected to decrease considerably during the current quarter (excluding seasonal factors). Employment in the wholesaling sector rose for a balance of firms, however it is expected to fall during the current quarter.

A negative balance of -23% of construction respondents are now less optimistic about their general business situation than they were three months previously. Despite the apparent pessimism, public sector orders and private sector orders rose for a balance of respondents. The trend in central government orders was still downwards. Trends in total, manual and non-manual employment were all positive and are all expected to continue to be positive. The factor most likely to limit output for construction firms is orders or sales. Regionally, Aberdeen was the only Chamber of Commerce that returned a positive balance of optimism.

Scottish financial institutions reported strong growth in the level of corporate advances; personal advances on the other hand showed a marked decline since the previous Survey. This downward trend in the level of personal advances is expected to continue.

Corporate advances in the three months to October declined for the manufacturing sector, distributive trades and other services. The trend in the demand for credit from the construction sector continued to be positive, but is expected to decline during the current quarter. Demand for working capital was the main reason for corporate advances, with demand for credit for investment declining since the previous Survey.

CBI

The CBI Industrial Trends Survey recorded a balance of optimism figure of -32%, the lowest figure for seven years. Confidence has declined for the third consecutive Survey, following the period from January 1987 to January 1989 when optimism was continually increasing. All manufacturing sectors in the Survey recorded declines in optimism, with "food, drink and tobacco" reporting the sharpest decline.

A balance of +7% of respondents reported an increase in the volume of orders, slightly lower than the +14% recorded in the July survey. A balance of +9% of respondents expected that new orders would remain steady in the coming months, order books are now considered to be below normal for the first time since July 1978. Respondents from "food, drink and tobacco" and "metals and metal manufacture", reported a weakening in demand. However, there were sectors that reported an increase in new orders namely "chemicals" and "engineering", while "textile" and "other manufacturing" respondents indicated falling demand.

Respondents indicated that there had been no growth in production volumes during the four months to October and these were expected to continue to decline during the four months following the Survey. "Engineering" and "metal and metal manufacture" respondents showed a slightly increased output growth since July, whereas "chemicals", "textiles" and "other manufacturing" indicated a fall in output levels over the same period.

The most frequently cited constraint on output remained a shortage of orders or sales with 74% of respondents mentioning this factor compared to 58% in the previous Industrial Trends Survey. The second most frequently cited factor was plant capacity at 27%. The shortage of skilled labour eased as a constraint on output for respondents over the four months following the Survey, being cited by 12% of firms, down from 21% in the July Survey.

For the third consecutive Survey, manufacturers on balance expected to authorise slightly less capital expenditure on plant and machinery over the twelve months following the Survey, than was the case during the twelve months prior to the Survey. This partly reflects lower capacity utilisation rates, with demand and output growth continuing to slow. The "chemicals" "engineering" and "metal" sectors expect to invest less over the next year. 81% of respondents cited increasing efficiency as the reason for authorising capital expenditure. Replacement was cited by 46% of respondents and the need to expand capacity was mentioned by 30%.

The factor most likely to limit capital expenditure authorisation continued to be an inadequate return on investment, being cited by +46% of respondents. Uncertainty about demand was mentioned by +34%. The third most important constraint on investment was a shortage of internal finance, being cited by 19% of firms. The percentage of respondents citing the cost of finance as a constraint on investment, at +16%, was marginally above the July result, and was the highest recorded since October 1981.

Manufacturing employment continued to increase during the four months to October with a balance of +9% of firms reporting rises in employment. An increase in jobs was indicated in all sectors with the exception of "food, drink and tobacco", "textiles" and "other manufacturing". Employment is expected to decrease for respondents in all sectors with the exception of "engineering" and "metals and metal manufacture".

The rate of growth in average costs per unit improved during the four months to October; a balance of +41% of respondents reported an increase in costs, compared to July's expectation of +32%. This is the highest result since January 1982. The improvement costs featured among firms of all sizes. Sectorally, "chemicals" and "metal and metal manufacture" and "engineering" reported a pick up in costs, while "textiles" and "other manufacturing" indicated some slowing in the rate of growth in costs during the four months to October.

Despite this improvement in costs, average prices at which domestic orders are booked have risen at a slower rate than anticipated. "Metals and metal manufacture" and "textiles" indicated slower growth in prices in the October survey, as did medium and large firms. The "engineering" sector reported a fall in prices for the second consecutive survey.

Optimism declined slightly about export prospects for the next twelve months, with a balance of -4% compared to +19% in July. However, small firms, "food, drink and tobacco" and "metals and metal manufacture" were more positive about export prospects in the coming year than four months previously. Against expectations, respondents reported some slowing in the growth of new export orders. Export order books have been reduced since July, with respondents, on balance, now reporting order books to be below normal.

The rate of increase in the average prices at which export orders are booked improved, as was expected, with a balance of +19% of companies indicating export prices rises, up from +7% in July. Expectations suggest a further quickening in the rate of growth in export prices in the next four months.

Prices remained the most important factor limiting the ability to obtain export orders, being cited by 71% of respondents. Political or economic conditions abroad remained the second most important factor and were cited by 35% of respondents.

Summary

Both the CBI and SCBS surveys are distinctly more pessimistic than they were previously. Optimism in all sectors of the SCBS is at the lowest level since the Survey began in 1984, and optimism in the CBI industrial trends survey is the lowest for seven years.

Primary

AGRICULTURE AND FORESTRY

The recent announcement (October 1989) of a further reduction in Forestry Commission (FC) redundancies in the Kielder Forest workforce has drawn attention to the fragile state of FC employment prospects at the present time. In the last ten years FC employment in Scotland has fallen from 4000 to 1500 persons. These additional reductions at Kielder will affect the labour market in the Newcastleton area of the Borders, where forestry is one of the main employers. The FC claims that a lower workforce is needed as a result of greater use of private contractors, the sale of standing timber and increased mechanisation. It is certainly the case that private contracting is leading to a substitution of work from the public organised (ie FC) to private sectors of employment, but union officials fear that wages and working conditions are being eroded as so much contracting work is being done by using casual labour.

Meanwhile, new rules for forestry planting on agricultural land in Scotland were issued by the Scottish Secretary in October. The new rules favour the release of agricultural land to forestry, with the exception of areas of hill sheep land and prime quality agricultural land. Special provisions will also apply to land falling within designated environmentally sensitive areas. For plantings of less than 40 hectares, applications for the FC Woodland Grant Scheme will not be required to go through the consultative procedure.

The role of forestry in providing wildlife habitat, public recreation and attractive landscapes has been discussed in Edinburgh at the Royal Scottish Forestry Society's "Birnam Conference". In a similar vein, the FC is currently producing a major review on policy for the expansion of forestry. It has commissioned a series of experts from a variety of fields, to assess all aspects of forestry expansion, including both costs and benefits. The FC hopes to produce a book in the new year comprising the individual contributions and its assessment of their implications for future short, medium and long term forestry policy.

Changes to forestry policy in Britain in the last few years appear to have led to a serious downturn in the industry's fortunes. The Forestry Industry Committee of Great Britain (FICGB) in its report "Options for British Forestry" points to the serious loss of confidence in the industry and consequent shortfall in new plantings below government target levels, following the removal of forestry from the tax system and its replacement with planting grant schemes. Details of the proposals for policy change put forward by the FICGB make interesting reading, and can be obtained from the report itself (telephone 01-235 2925). It is worth pointing out that despite apparent large scale afforestation in Britain (particularly Scotland) in recent years, 90% of Britain's annual consumption of timber is met by imports (valued at £7 billion), and that she is still one of the least forested nations in Europe by proportion of land area.

Scottish agricultural output figures for 1988, issued in November by the Department of Agriculture, indicates a 3% rise in value of total output. The department attributes this rise mainly to the effect of the mild winter and favourable spring of 1977/78. Comparable data on farm costs were not given in the report, but it is evident that for cropping farms, output and income both fell, whereas rises in each were recorded for livestock farms.

In 1988, the North east of Scotland farmers, particularly in cropping, were most seriously affected by output loss. However, the inherent volatility in farm incomes and output is illustrated by the fact that this year (1989) has seen the cropping harvest as one of the best on record.

For individual sector dairy cow numbers have continued to fall (by 5% in 1988). The number of dairy producers has fallen from 7000 in 1968 to 2705 in 1988. Beef cow output has been fairly constant over a five year average. Sheep numbers have been exhibiting a trend increase, reaching 9 million in 1988, including 3.6 million breeding ewes.

In terms of employment, 21,539 regular workers were employed in farming in Scotland as at June 1988, of whom 1,241 were female. Average weekly earnings, including overtime, for regular farm workers at that time was £147.68. Details of agricultural statistics for the year 1988 may be found in the HMSO Report "Agriculture in Scotland, 1988", price £6.

FISHING

Table 1 provides data on the volume and value of fish landings in Scotland for the period January to September 1989, as compared with the equivalent period twelve months earlier.

Substantial falls (18% overall) were recorded for demersal (white fish) volume landings, with smaller (5%) falls in weight of pelagic species landed.

For whitefish species, the falls in weight of fish landed were in general accompanied by price rises;

Table 1

FISH LANDINGS IN SCOTLAND : JANUARY TO SEPT 1989 - COMPARED WITH CORRESPONDING PERIOD IN 1988

	JAN-SEPT 1988			JAN-SEP 1989			89 AS % OF 88		
	Weight Tonnes	Value £'000	Price £/T	Weight Tonnes	Value £'000	Price £/T	Weight %	Value %	Price %
Landings by UK Vessels									
Demersal	200,575	130,279	650	164,818	119,109	723	82%	91%	111%
Pelagic	140,668	16,405	117	134,115	14,721	110	95%	90%	94%
Shellfish	32,455	42,913	1,322	33,347	44,288	1,328	103%	103%	100%
Cod	35,540	33,342	938	28,722	28,237	983	81%	85%	105%
Haddock	67,211	49,327	734	54,307	45,017	829	81%	91%	113%
Whiting	25,990	13,476	519	19,602	11,710	597	75%	87%	115%
Dover Sole	52	172	3,308	43	156	3,628	83%	91%	110%
Hake	1,305	1,718	1,316	1,262	1,867	1,479	97%	109%	112%
Lemon Sole	2,040	2,641	1,295	1,989	2,874	1,445	97%	109%	112%
Megries	2,082	1,867	897	1,818	1,733	953	87%	93%	106%
Monks	5,425	9,407	1,734	6,121	10,858	1,774	113%	115%	102%
Plaice	5,715	4,012	702	4,626	2,788	603	81%	69%	86%
Saithe	10,896	4,092	376	8,259	3,194	387	76%	78%	103%
Skate	3,070	1,534	500	2,474	1,331	538	81%	87%	108%
Norway Pout	234	14	60	6	2	333	3%	14%	557%
Sandeels	30,109	1,088	36	24,559	948	39	82%	87%	107%
Mackerel	51,658	6,126	119	43,022	5,033	117	83%	82%	99%
Herring	83,897	10,075	120	84,156	9,389	112	100%	93%	93%
Crabs	4,284	2,761	644	3,890	2,772	713	91%	100%	111%
Lobsters	463	3,677	7,942	399	3,304	8,281	86%	90%	104%
Pink Shrimps	111	114	1,027	568	684	1,204	512%	600%	117%
Scallops	3,225	4,678	1,451	3,519	5,840	1,660	109%	125%	114%
Norway Lobsters	15,148	27,269	1,800	15,109	25,751	1,704	100%	94%	95%
Queen Scallops	2,531	880	348	3,179	1,057	332	126%	120%	96%
Total by UK Vessels	373,698	189,596	507	332,280	178,119	536	89%	94%	106%
Landings by foreign vessel	24,247	3,762	155	20,114	3,203	159	83%	85%	103%
Total landings in Scotland	397,945	193,359	486	352,394	181,322	515	89%	94%	106%

Source: Fisheries Statistics DAFS

however in the case of the three main species, cod haddock and whiting, the price rises were insufficient to compensate sellers for weight falls, resulting in overall falls in value of landings.

Pelagic species landings were, in value terms, 10% lower than 12 months earlier. Herring landings were unchanged in volume, but the price of £112 per ton was 7% lower than last year. Mackerel, the other main pelagic species, showed a large fall in both volume and value, with landed prices largely unchanged.

Overall, the value of Scottish fish landings by UK vessels was £178 million, six per cent less than in the same period last year. Volume landed was down by 11%, and average prices were up by 6%.

On November 10 1989, the Department of Agriculture and Fisheries for Scotland (DAFS) issued a consultative paper, inviting opinion on proposals for change in the UK licensing system for fishing vessels.

The stated purpose of the paper's proposals is to allow the industry to modernise its fleet and adapt to changing conditions, while at the same time achieving a modest reduction in fleet size; the current fleet size is excessive relative to present fishing opportunities. The central proposal of the consultation paper is the introduction of a system whereby owners may transfer license from one or more old vessels to a new vessel, providing the capacity of the latter does not exceed 90% of that of the old vessels whose licenses are being surrendered. This will represent a change from the current situation in which (since 1988) licenses were not transferable except under exceptional circumstances.

While sea fish landings are under continued pressure from tightening quotas and controls on fleet expansion, the Scottish farmed salmon industry has been enjoying a rapid growth throughout the 1980s. However, 1989 has seen the farmed salmon industry in a serious state of over-capacity. Whilst the industry has been expanding in Scotland, its growth in Norway has been remarkable. Indeed, since 1985, Norwegian (farmed) salmon has increased from about 26 thousand tonnes to a current output of about 150 thousand tonnes. Of this increase, nearly one half took place in 1989 alone!

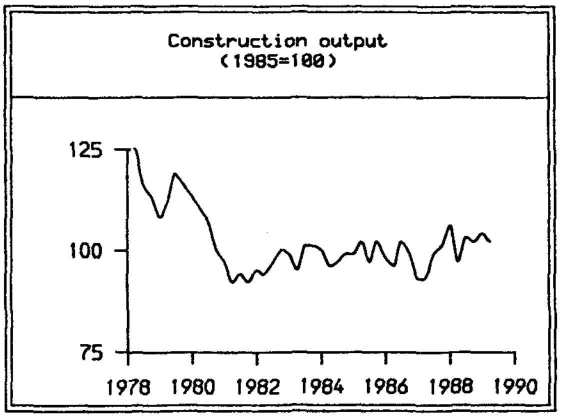
Not surprisingly, the consequence of such a dramatic expansion in Supply has been a serious fall in price levels. In Scotland, price falls (at producer level) of 40% have been experienced since the start of 1988.

Many salmon farmers are now trading at operating losses, with some farms in receivership or being sold. For a relatively "homogeneous" good, such as farmed salmon, where price is predominantly set at an international level, the fortunes of Scottish producers are inextricably linked with the evolution of demand and supply patterns in competitor economies. In this case, over-supply has originated in Norway, but Norway alone does not pay the costs of over-rapid expansion of supply.

Construction

The Scottish index of production and construction stood at 102.5 for the second quarter of 1989 a fall of 1.2 on the previous quarter. Comparing the latest four quarters with the previous four quarters there is a rise of 2.1. For the UK as a whole there was a 0.2 rise in the second quarter of 1989 to 123.5 which is 7.4 up on the same quarter last year.

The latest Scottish Chambers Business Survey (SCBS) show that a balance of 23% of respondent firms are less optimistic about the business situation than they were three months previously. The actual trend experienced by respondents in the three months to October in central government orders, other public sector orders and private sector orders showed balances of -8%, +13% and +52% respectively. However a balance of +8% of respondents expect central government orders to increase in the next three months, and a balance of only 14% see an increase in expected orders from the private sector in the next three months.



A balance of 15% of respondent firms foresee total employment increasing in the forthcoming three months. With a balance of 30% and 12% expecting an increase in manual and non-manual employment respectively.

NHBC Scottish housing "starts" fell by 7.5% to 3,700 in the third quarter of 1989, a fall of 300; whilst housing completions rose by almost 37% to 4,100 an increase of 1,100 on the quarter. The Great Britain figures for "starts" and "completions" are 37,400 (down 9,300 (20%)) and 51,800 (up 7,100 (16%)). Average house prices in Scotland are continuing to rise, albeit at a slower rate, and now stands at £63,000, up £3,000 on the second quarter. This compares with the average price in 1987 and 1988 of £41,000 and £48,000.

The NHBC first time buyers ability to buy index is down 9 points to an all time low of 42 clearly showing the dampening effect of high interest rates.

Recent national surveys have indicated that the slump in house building has started to spread to private commercial and industrial property development. This is doubly worrying because of the construction industry's tendency to be an important indicator of future economic trends.

The Department of the Environment's figures for the construction industry show that in Scotland for the second quarter of 1989 new orders increased in value from £37 million to £640 million. However the total public sector new orders fell from £219 million in quarter 1 to £161 million in quarter two, a fall of £58 million (26.5%). On the other hand, the total value of private sector new orders rose from £384 million to £479 million, an increase of £95 million (24.7%). Public sector housing, likewise, did not fare well against private sector (new) housing orders with a fall of 24% in the former and a rise of 13% in the latter. This from a base in excess of five times larger.

Energy

OIL AND GAS

The latest (November) Royal Bank/Radio Scotland oil index for October stands at 129.0, up 7.3 on the month. This figure of 129.0 is the highest this year continuing the climb started after June's low point.

The daily output during November of 2.12m barrels per day represents an increase from the previous month of 120,000 bpd. The estimated daily value is therefore £25.3 million, the highest daily oil value since November 1987. This represents a real increase in income of 11% on September in the light of the unusually stable sterling/dollar exchange rates, of the past few months and the increasing sterling oil prices. The average price for Brent crude in October was $18.9 (up $2.10 on the month).

Significant falls in production in some fields were more than offset by sizeable output increases at Mobil's Beryl, BP's Forties, Shell's Fulmar and Stratoil's Stratfyord installations. Fields which have come on stream in 1989 produced 133,000 bpd in October which is 6.3% of total production.

In the latest Scottish Chambers Business Survey (SCBS) the Oil and Related Industries sector (for Aberdeen) shows that 10% of respondent firms are more optimistic about the general business situation now than they were three months ago. A balance of 40% of respondents saw oil and gas recovery increase in the last three months and 30% expect an increase in the next three months. Total employment showed an increase for a balance of 11% of respondent firms whilst the expected trend for the next three months is for an increase of 9% (once again for a balance of respondents).

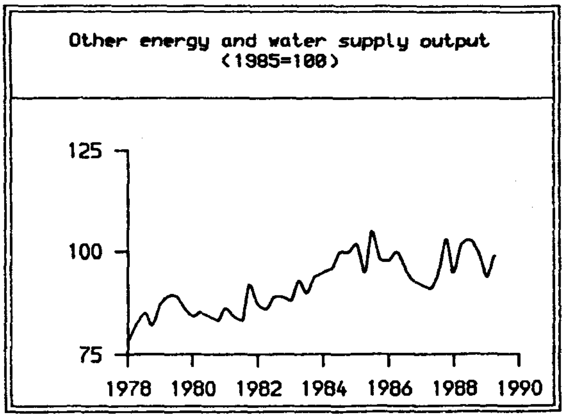
The latest Training Agency/Employment Service survey of oil related employment in Scotland shows a first half 1989 increase of almost 4,000 jobs. This growth was mainly in Grampian Region, where employment is at just over 49,000 its highest level since December 1985. The main growth area was in construction, with smaller increases in professional and business services. There was however a slight downturn in mechanical and marine engineering, transport services and metal goods.

BP's recent announcement of increased North Sea oil reserves of over 70 million barrels uncovered after their takeover of Britoil, certainly confirmed the experts opinion that this was the acquisition of the decade. This "discovery" represented increase of nearly 24% of recoverable reserves as they were at the takeover in February 1988, which exceeded BP's commitment to the Government that it would increase reserves by at least 5%. Oil analysts will confirm that it is easier to estimate reserves as a field becomes older and also that other operators have revised their estimates upwards.

Some 18 million barrels of this increase relates to the Beatrice field which was previously expected to close in the early 1990s. Beatrice is the only field which produces oil through the terminal at Nigg and this can only be good news for the Cromarty area.

COAL, ELECTRICITY AND OTHER ENERGY

The future structure of these industries has again been changed by the announcement that all nuclear power stations will now be excluded from privatisation. Previously, the older Magnox stations had been excluded but the official revelation that the true costs of CEGB nuclear generation are in the region of three times that of fossil fuel generated electricity was the trigger for the change of government policy.

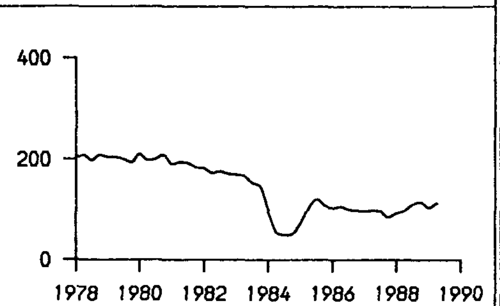


The impact of this about-turn will have differing effects north and south of the border. Firstly, Scotland has a considerably higher proportion of its electricity generated from nuclear power. Second, it has been stated a number of times by the generating authorities that the Scottish nuclear plants have been run more efficiently than those in England. While this is plausible, as the French, German and Japanese industries have supposedly produced at lower costs than in the UK, many of the full costs of achieving high safety levels during and after operation of a nuclear plant are as yet unknown. In addition, the efficiency of the new Torness reactor will only be fully known after it has undergone its first refuelling. As it is, the chargeable costs associated with Torness are higher than those for coal-fired power stations, largely due to the very heavy debt burden from the reactor's construction. A further reason for continuing high nuclear costs is the escalating price of fuel reprocessing. This has been caused by the introduction of higher safety levels in the wake of Chernobyl and the increased debt charges incurred during building new reprocessing capacity at Sellafield. Ironically, this plant was planned partly as a result of the former strategy to build a 'small family' of four Pressurised Water Reactors (PWRs) south of the border. These costs are now largely sunk.

Without the inclusion of ownership of the nuclear sector, the two remaining Scottish candidates for privatisation, Scottish Power, hitherto the SSEB, and Scottish Hydro-Electric, until now the NSHEB, will look more like the English electricity distribution companies than the vertically integrated companies that they were until the policy change. Previously, they were better prepared for privatisation than their English counterparts and were pressing to be first in the queue for sell-off. Not only has their relationship with their nuclear power suppliers now changed but so too has their link with their potential English clients, the distribution companies. With the likely cancellation of the remaining three PWRs and the possible abandonment of the Sizewell B PWR, the potential for exporting surplus Scottish power to England has increased. However, this depends on a number of factors. First, the government will have to be willing to subsidise the production of nuclear power, as otherwise large industrial consumers will escape any potential nuclear levy by producing electricity on their own account. Second, exports will depend on the structure agreed for the industry south of the border, which has again been disturbed by the withdrawal of nuclear plants. Third, it is still not clear whether the Scottish power companies will be granted sole access to the output from their former nuclear plants.

Should privatisation still be completed in advance of the next election, the indications are strongly that the sale price will reflect a considerable discount on asset values, despite the lower level of uncertainty associated with a non-nuclear generating stock. This is partly the legacy of the technical conservatism of the CEGB, which largely ignored the development of gas turbine and combined cycle generating technology, which could yield electricity at considerably lower capital costs, though at the expense of slightly higher running costs. Hence, the existing assets would have to be written down to reflect the present cost of constructing generating capacity. In this context it is worth noting the the Labour Party's policy on the electricity supply industry, while stipulating that the industry should remain in the public sector, is targetted at altering the balance of power between the English generating and distributing authorities in favour of the latter. This could well mean the ability of Scottish generators to export to England in the context of the industry remaining in government hands.

Coal & coke output (1985=100)



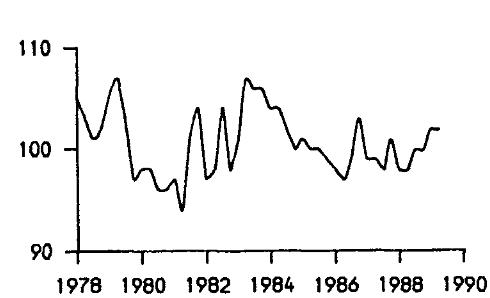
Manufacturing

FOOD, DRINK & TOBACCO

The index of production figures for the food industry for the second quarter of 1989 stood at 102 - no change from the previous quarter. Comparing this with the year before, the second quarter of 1988 showed an index of production of 98 thus there has been a 4% increase between the two quarters. The 1988 average was 99. The index of production for the UK food industry for the second quarter of 1989 was 106 - 4% greater than that for Scotland. The UK average for 1988 was also 106.

The drink and tobacco index for the second quarter of 1989 has increased by 6% from 105 in the first quarter of 1989 to 111 at present. The second quarter of 1988 index as well as the 1988 average also stood at 105. The latest UK figure was 108 - 3% lower than the Scottish index while the 1988 average for the UK as 106 - 5% less than the current Scottish figure.

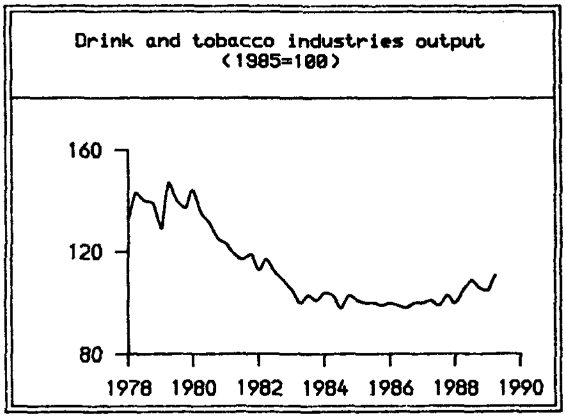
Food industries output (1985=100)



The latest Scottish Chambers Business Survey shows that, excluding seasonal factors, a balance of 5% of firms are less optimistic about the general state of business than 3 months ago. This is despite a balance of 43% of firms experiencing a rise in both the volume of new orders and new sales. It is expected that these will continue to grow over the near future. A balance of 41% of responding firms expect orders to increase and a net 41% expect to see an improvement in sales.

Employment also looks healthy, a balance of 43% of companies have shown an increase in numbers employed and a net 15% expect this rise to continue over the next 3 months. On balance, the figures for male and female employment requirements are very similar which shows a change since the last Commentary when a balance of 17% of firms experienced a rise in female employment while only a balance of 4% showed male employment growth. The expectations for male and female employment show the same pattern as that at present.

There has been recent news of a new salmon processing plant being opened in Fort William. McConnell Salmon Ltd, one of Scotland's largest salmon farming companies is set to expand by moving into an already built salmon processing and packing plant. The company will use the new plant, built at a cost of £450,000 to add value to their products by increasing output of prepared fish and enlarging their packing and distribution services. The plant opened on the 26 September and 16 employees have been added to the existing 150 people currently employed by McConnell Salmon. It has been considered that, on a general level, the plant will enhance the value of fish farming to the local economy.



Guinness has experienced a 34% rise in half year profits. Pre-tax profits in the six months to June were £246 million. A number of the Guinness operations did well - the Far East and the French especially. Brewing profits also increased largely as a result of Guinness in cans, Kaliber alcohol free lager and a recovery in the Irish economy. The North American group's profits fell however, mainly as a result of the declining US spirits market, a destocking programme at the companies distributors and a restructuring from low price, high volume products to premium brands.

Full-time working has been reintroduced at all the company's malt and grain distilleries for the first time in eight years. £100 million has also been invested in production facilities over the next three years. This is said to be a result of increased confidence in the future of the Scottish whisky industry.

Another drinks producer is concerned with the future of its spirits production. Whitbread has put its wines and sprits division up for sale and it has been estimated that it will be worth up to £500 million. A number of groups are said to be interested. The division which produces Beefeater Gin and Long John Scotch whisky is small compared with its major competitors and it was thought that expansion would have to take place or a withdrawal from the market. The group are now concentrating on their chain retailing which includes Pizza Hut, their pubs, beer brands and their brewing activities. The sale of the spirits division will reduce the amount borrowed by Whitbread since in the past debt funding and not rights issues has been used to raise money for expansion and acquisitions. In the year to February 1989 wines, spirits and soft drinks made up £35.4 million of the groups pre-tax profits of £223.2 million.

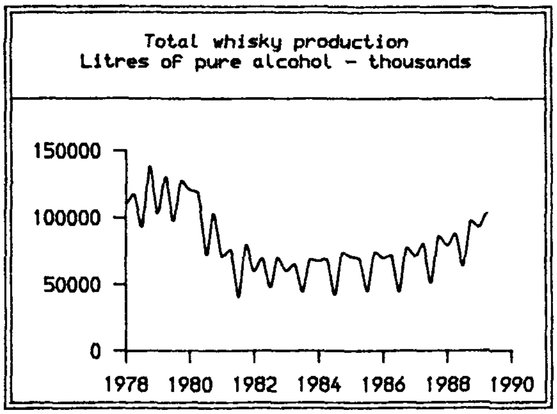
Alma the Dundee based sweets maker has gained more than £1 million worth of orders for its Scottish production plants. This has come only two weeks after opening a Spanish based sales and distribution subsidiary which is likely to increase the company's exports currently worth over £10 million per year. Total turnover reached £65 million last year.

WHISKY

Scotch whisky is one of the industries which is most affected by the Government's policy of using high interest rates to combat inflation. In part this is simply because of the cost of financing the very large stocks of maturing alcohol which the industry must maintain, a cost which is now growing as substantial restocking takes place. There is another effect, however, which occurs indirectly through exchange rates. High interest rates keep the value of the pound relative to other currencies higher than would otherwise be the case, which is not beneficial to export-intensive industries such as whisky.

On the topic of exports, figures for whisky sales overseas for the first nine months of the year make rather mixed reading. Total exports stood at 169.9 million litres of pure alcohol, a drop of almost 1% by volume compared with the first nine months of 1988. This is rather disappointing, especially because of the very good first half figures. The overall figure masks divergent performance in the different types of exports. Bottled-in-Scotland blends, the mainstay of the industry, showed a rise in exports of 3.6% to 117.4 million LPA. However, a large fall in bulk exports of blended whisky resulted in an overall 2.9% fall in blended shipments. Sales of bottled malts, the fastest-growing sector of the market in recent years, remained fairly stagnant in 1989.

Total shipments for the year to September were 5.6 million LPA, fractionally down on the same period last year. Interestingly, however, bulk exports of malt whisky appear to be rising again, having dipped considerably in the middle of the decade. As long as prices remain buoyant, which has been the case of late, whisky producers are unlikely to be unduly worried about a levelling off of exports. However, the recovery which the whisky industry has undergone over the last three years has been largely export led, and the substantial increases in capacity and output witnessed recently are ultimately destined for the export market in the main. Should overseas markets for Scotch whisky begin to stagnate for more than a short period of time then it is difficult to see how planned output expansions could be sustained.



As documented in previous Commentaries, the last five years have seen very rapid changes in the pattern of ownership and control of the whisky industry in Scotland. While not as dramatic as the upheavals which took place in the middle of the decade with the arrival of Guinness, more modest changes continue to happen. Long John, now operating under the James Burrough trading name, has been put up for sale. This comes about as a result of a decision by the brand's owners, Whitbread, to sell its wines and spirits division. The decision seems to be prompted by Whitbread's recognition that its spirits operation was too small to compete effectively with the major players in global markets, and the company now intends to concentrate on retailing activities and brewing. Long John was purchased by Whitbread in 1975 having previously been owned by Schenley Industries of the United States.

Further Japanese involvement in the industry has come about through Suntory's 35% stake in Morrison Bowmore, which owns three whisky distilleries (Bowmore, Auchentoshan and Glengarioch). Japanese interest in the Scotch whisky industry has heightened over the last three years with the purchase of Tomatin by Takara & Okura and of the Ben Nevis Distillery by Nikka. However, it is premature to conclude that Suntory will feel tempted to go as far as the purchase of an entire company or even a distillery. Suntory already owns around 10% of Macallan-Glenlivet, and did at one time own a strategic shareholding in the Glenlivet Distillers before that company's acquisition by Seagram in 1978. These shareholdings have always been seen as natural extensions of trading links and as investments by the Japanese company rather than as precursors of an attempted takeover, and there seems little reason to doubt that the same strategy is being adopted in the Morrison Bowmore deal. It does, however, illustrate once again the growing interest of Scotch whisky for Japanese companies as 1992 approaches and as the home market in Japan becomes more open to imported spirits.

One of the few remaining Scottish-controlled whisky companies, Highland Distilleries, announced excellent figures for the year to 31 August. Turnover rose 18% to £130.6 million, with profits up 37% to £19.5 million. This excellent performance was in part due to the industry's insatiable desire over the last year for new fillings to replace the stocks which have diminished rapidly as the industry's fortunes have improved. However, the company has also benefited from the performance of the Famous Grouse, which not only did well in export sales but also improved its market share in Scotland and the rest of the UK in what is a declining market.

METAL INDUSTRIES

The current quarter has seen renewed concern over the future of the Scottish steel industry. This derives from 2 broad sources. First, the announcement of production pauses at the Ravenscraig hot stripmill provoked by a weakening market environment. Second, the confirmation by British Steel executives that decisions on the future strategy on plate and tubemaking capacity within the company would be announced in the first half of 1990. In response to this, the Standing Committee for the Defence of the Scottish Steel Industry has been reconvened in order to coordinate an all Scottish Campaign based around a 9 point programme. This has provoked a dispute over tactics. The SNP, whilst supporting the measures proposed by the Standing Committee, object to the presence of the Scottish Conservatives and favour tactics designed to engender a constitutional crisis. The Ravenscraig shop stewards are also uneasy over the tactics of the proposed campaign on the basis that a similar approach failed to persuade BS to retain the Gartcosh CR mill in 1985 and they have not formally joined the Standing Committee. Thus, at the time of writing, the Scottish Steel Lobby the cohesiveness of which was formidable in the early 1980's seems irretrievably split.

The difficulties of the UK economy and its steel industry in 1990 will be exacerbated by trends in the economies of major trading partners. According to the National Institute, growth in all major economies will moderate compared with the strong performance in the latter part of the 1980's. The slowdown is projected to be most severe in the UK where extant counter inflationary measures are likely to result in zero growth in domestic demand. In terms of the steel industry, the International Iron and Steel Institute have recently upgraded their forecasts of 1989 steel consumption. The IISI project that world steel consumption will increase by 5.6% in 1989 to 464 million tonnes. The IISI estimate that there will be marked variations in consumption growth across the major industrial economies. Thus, the EC and Japan are thought to have experienced stronger than expected increases in consumption whilst the US market has clearly peaked. The EC estimate that demand for certain steel products slackened in late 1989 but that production continued for a time at unwarranted levels. This is particularly true in the market for hot rolled coil in which a sharp contraction in the demand for strip to manufacture tubes has been evident in the last 2 quarters. Stock levels held by producers, steel stockists and consumers are currently high and output is being reigned back in order to ease the emerging pressure on prices and margins. The major EC strip producers are engaged in a co-ordinated programme to balance supply and demand with most either cutting weekly throughput or standing down capacity for a period. The production pause at Ravenscraig is part of this exercise.

Early forecasts of the evolution of steel markets in 1990 furnished by the IISI suggest that apparent steel consumption will fall owing to a process of destocking in many product lines. The EC view that, in terms of strip, the adjustment will be complete in the first part of the year and that a strong EC demand for strip based final products such as cars and white goods will prevent a serious problem in the market. In general terms, the expectation is that 1990 will be a tricky year for EC steel producers. Global steel markets are set to experience slower growth than in the latter part of the 1980's and production has to be moderated. There is early evidence of price weakness in export markets due to diversions of output to this arena.

The short term outlook for the UK steel industry is not favourable. Recent forecasts by Phillips and Drew indicate that UK steel consumption will decline by 5% in 1990 to an annual total of 14.44 million tonnes. A further decline of 2% is forecast for 1991. The driving force behind this contraction is reduced levels of demand for cars, trucks and consumer durables engendered by sustained high borrowing costs. This places pressure mainly on strip products. The outlook for long products used in the construction, fabrication and capital goods sectors is projected to be more favourable with demand tending to remain static rather than decline. Recent statements by BS Chairman Sir Robert Scholey have implied a broadly similar scenario. In addition, Phillips and Drew estimate that likely increases in labour and raw material costs will result in BS facing increases in unit costs of 10% in 1990. Such pressure results in profits falling by 20% between the 1989/90 peak and the trough in 1990/91. Phillips and Drew add that they are optimistic that BS will endeavour to maintain profitability with reference to management's "aggressive cost cutting stance". It is suggested that "if it looks as though the environment is weakening more quickly than expected we believe action will be taken quickly to cut cost. We draw comfort from the intensive cost cutting that British Steel has undertaken even during the recent good years".

The Phillips and Drew forecasts are based on exchange rate assumptions less favourable than those which currently prevail and less favourable than those forecast for 1990 by the FAI. Given a weakening pound mark exchange rate there is an opportunity for BS to divert output to continental market using its expanded European distribution system. Other EC stripmakers have greater cause to be sanguine over domestic conditions than BS.

Unlike the UK, EC automotive output is projected to increase by 2% in 1990 and the outlook for this sector is argued to be bright because of an expectation of continued growth of real disposable income in Community economies and tax cuts in Germany.

The extent to which BS can ride out the policy induced, adverse turn in the UK market by increasing penetration on the continent will depend on whether EC producers allow the market to dictate where restructuring occurs. The EC do not intend to intervene but argue that further cuts in capacity and employment are required in certain areas in order to stabilise markets. In a properly functioning market, efficient producers such as BS should expand at the expense of high cost operations. The late 1980's boom has prevented rationalisation of inefficient capacity most notably in Italy, France and Germany. The outlook for steel markets beyond 1990 is more favourable and most EC producers, including BS see a firm recovery following the 1990 slowdown. However, this cognizances recognises that steel markets will grow more modestly in the first part of the next decade than in the latter part of the 1980's. BS executives have maintained consistently that recent strong demand is above the long run trend.

1990 will be a difficult year for the Ravenscraig stripmill which is regarded by BS as their marginal unit and seems set to bear the brunt of any weakening of the order situation. British Steel postponed a review of their stripmaking capacity in 1989 because of the then strong market outlook. There has been little formal indication of how BS will react to the 1990 slowdown which will impact most adversely upon the Strip Products Division. Attempting to divert strip output to weak continental markets carries the risk of undermining the price structure. There is a strong possibility that BS may seek to react to any such scenario by closing the Ravenscraig hot strip mill. Thus, 1990 will be a watershed year for Ravenscraig whose HSM may not survive if there is prolonged instability in EC markets. This would allow BS to concentrate stripmaking at the refurbished operations in South Wales and at Lackenby on Teeside with consequent cost savings. The investment programme undertaken to accommodate this has been discussed fully in previous Commentaries although it is our view that further capital programmes may prove necessary given the favourable medium term outlook on demand from Japanese owned car plants.

There is also considerable uncertainty with respect to the Scottish plate and tubemaking operations. BS executives have indicated that they intend to remain in platemaking because BS take the view that a viable market opportunity exists. The issue is one of where this production will take place. BS set up a working group to examine such issues in May and a final decision is expected in the first half of 1990. In terms of tubes, there is surplus capacity in the EC and restricted access to the strong US oil sector. The BS Clydesdale works possesses two outdated rolling mills and the production process is unbalanced. BS executives have indicated that, even fully loaded, Clydesdale cannot be profitable. A decision on the future of tubemaking within BS is expected in the first quarter of 1990.

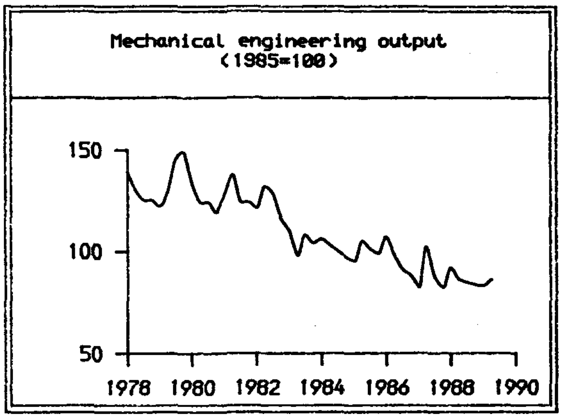
Since the early 1980's, this Commentary has consistently argued that BS have been engaged upon a phased withdrawal from Scotland. Next year will provide the definitive test of these views. Despite a poor short term position, the medium term outlook for UK strip demand remains favourable. The various elements of the Scottish Steel lobby are correct to voice concern and deserve a clear indication from BS as to how the company intends to adjust strip capacity over the coming period. The stripmill is not necessarily covered by the guarantees designed to support the Ravenscraig steelmaking facilities and Dalzell platemill until the middle of the next decade. In terms of platemaking, BS could sanction approval for a greenfield platemill which would not be operational until after the guarantee period is over. This Commentary has previously expressed great doubt over the force of these guarantees and has tended to regard them as useless and cosmetic. The reasons for this are twofold. First, this protection extends over a period during which BS are likely to need the 'safeguarded' capacity and is subject to a very general get out clause that operations are subject to market conditions. Second, investment decisions take considerable time to implement and decisions taken now will determine whether there is any scope for a Scottish operation after the guarantee period. Thus, although BS should honour its commitments, these guarantees are past their shelflife. They do not impinge upon BS's strategic options and provide no guarantee that BS will not take decisions which will allow them to eliminate their Scottish operation in 1994.

It is clearly time for BS to clarify their intentions and the company must be pressed to make a statement about the medium term prospects for the Scottish industry. If BS intend to withdraw from Lanarkshire by the middle of the decade, then a statement to this effect would allow local authorities, public agencies and the local enterprise company to forge plans and negotiate resources to deal with the painful adjustments which the local economy will experience.

In addition, it is time for BS to set out whether it has any future use for the land it owns on the Hunterston peninsula. BS has erected 2 Midrex direct reduction units and has outline planning permission for rolling mills. As set out in previous Commentaries, BS and Hoogovens have developed a revolutionary direct smelting technique which, if proven, will replace the Blast Furnace-Basic Oxygen Furnace steelmaking route in the next century. It would appear that the 2 DR units at Hunterston could be converted to operate this process. Indeed, a former BS Chairman, Sir Ian McGregor, indicated in 1983 that this technology would be installed at Hunterston in a new development in the latter part of the 1990's. Given that BS, SSEB and the Scottish office planning arrangements effectively blight the Hunterston site, it is also time for BS to clarify its intentions in this respect. Hunterston remains the best site that BS has in Scotland and would serve as an ideal location for greenfield developments such as a new platemill. There is no evidence that BS have considered siting this in Ayrshire or that they intend to honour McGregor's commitment to install new steelmaking technology. Hunterston has alternative uses and BS should be pressed to develop or withdraw. These issues will be discussed more fully in the future Commentaries.

MECHANICAL ENGINEERING

The index of production for the mechanical engineering industries stood in the second quarter of 1989 at 86% of its average output. Earlier indications that the industry's decline has levelled off are supported by the fact that output is at the same level as a year earlier. However, there remains cause for concern as, over the same period, the UK industry as a whole grew by around 7%. Secondly, the general economic downturn is likely to have a significant impact on many of the industry's component sectors. Employment in the Scottish engineering, vehicles and metals sector in June 1989 was around 1.9% higher than a year earlier, while employment growth for Great Britain as a whole was a minimal 0.1%. Employment growth in Scotland does seem to have halted over the past few quarters and, at best, this trend is likely to continue.



There has been little company news from the sector, perhaps as firms wait to see how severe the downturn becomes. Anderson Strathclyde, to be renamed the Anderson Group, is restructuring following the decline in its market for coal tunnelling and shearing equipment. In trying to stick to these core businesses, it is selling its electrics and electronics subsidiary, M&C Switchgear. This strategy ties in with the general trend towards corporate concentration on limited product areas, with more inputs being bought in. The overall restrucuring, which may be supported by Scottish Office funds, is expected to cause the loss of 400 jobs.

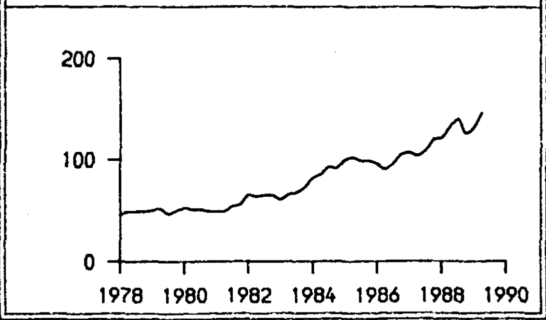
The American-owned Cummins diesel engine group has been threatened with unfriendly takeover after a long period with low profits. The company's heavy investment strategy is said to be an attempt to stay competitive in a field close to those dominated by Japanese firms. Significantly, some of Cummins Scottish output has been exported to Japan in 1989, although to a fairly small extent. More positive news comes from Eaton Hydraulics, who are expanding their plant at Glenrothes.

The power engineering industry is likely to be affected by the cessation of government support for new nuclear power stations. Future thermal plants are likely to follow gas turbine or combined cycle technology. A number of Scottish firms have a presence in this sector, although it is still too early to say whether the late start by the domestic electricity industry and the trends towards large firms on a European scale (which so far have excluded Scottish plants) will deny local producers access to the market. The change in policy can therefore be said to be potentially positive for the industry.

ELECTRICAL AND ELECTRONIC ENGINEERING

There have been a number of developments in the company sector in the recent few months with, unfortunately, more bad news than good. In October, receivers were appointed at the consumer electronics company Hinari, which was founded in 1985. Hinari showed a remarkable degree of success in its first few years, growing from sales of £14.5m in its first year to £70m in 1988. Despite the Japanese-sounding name, Hinari is a Scottish-owned company which designs its on range of products in Scotland, including videos, compact discs and televisions, and then has them manufactured to its own specifications in the Far East. Earlier this year, however, the threat of anti-dumping duties on Far Eastern products after the 1992 liberalisation programme made it decide to set up an assembly facility in Cumbernauld which created 80 new jobs, and it had more general plans to increase the local value-added content of its products. The company had recently begun to export and had set up sales subsidiaries in France and Italy.

Electrical & instrument engineering output (1985=100)



Hinari's success to date seems to have been due to to its tightly specified product range and the reduced costs involved in manufacturing in the Far East. The company had been likened to a mini-Amstrad, who also design a range of fairly basic consumer electricals and source abroad. Like Amstrad, Hinari sold mainly mass produced goods through High Street chain stores, where sufficient volume could be guaranteed. What appears to be the immediate cause of Hinari's downfall is the squeeze on consumer spending, which caused one of the High Street majors to cancel a major order, forcing Hinari to half its workforce. Given this, the future prospects for Hinari would appear to be fairly robust and there are hopes that a buyer will be found.

Similar problems to those above have also hit Amstrad itself, where a drop in profits from £160m to £77m were announced. Again, the proximate cause appears to have been simply reduced consumer spending, although the company was also forced to recall 7000 personal computers which were affected by a hard disk problem. So far, the fall in profits does not seem to have affected Amstrad's plans to set up PC assembly facilities in Kirkcaldy.

Elsewhere, there was again disappointment that Ireland and not Scotland is to be the location for the 2600 jobs which will be created by the £300m investment in chip-making facilities. Following Wang's decision to shift all of its European production to Ireland, the Intel decision is undoubtedly a blow to the SDA and will raise further questions about its targeting strategy. In this instance, however, Intel appear to have been concerned simply to find the least-cost location for a European facility and while the jobs would certainly have been welcome, there are doubts about the longer term local impact of the plant. The next round in this particular battle will occur early next year, when the Korean company Samsung is expected to announce the location of its European chip plant.

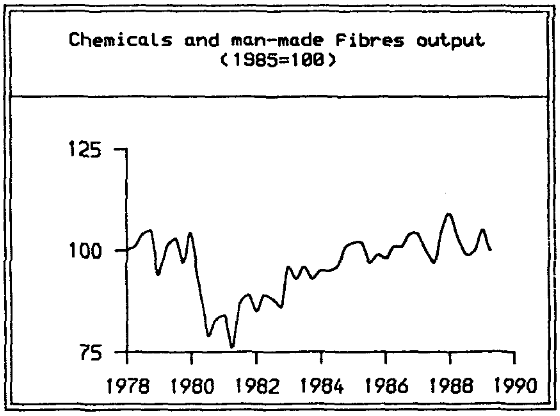
One bright spot is the continued recovery at Prestwick Circuits. This was noted in the June issue of this Commentary (p31), and the company has now reported a 50% increase in profits in a year. However, the management has also expressed some caution that prospects in one of its major sectors, telecommunications, might soon be hit by falling sales.

Finally, the major item continues to be the situation at Ferranti. Things appear to have calmed down somewhat and the company has successfully negotiated the first part of its rescue package, an agreement with a banking consortium to provide £300 m worth of credit for working capital. In the interim, it is seeking a long term method of extricating itself from the acquisition debacle which resulted in the loss of approximately £185m. Among the options being considered are splitting the defence interests off from its consumer electronics division in order to protect its defence interests, primarily its excellent working relationship with the Ministry of Defence and its technological lead in areas such as radar and sonar technology. Another option is a straight buy-out by a UK company, with British Aerospace being the favourite. It is not known which of these options is most likely to protect the 6,500 defence-related jobs in Scotland, although operating under the umbrella of a powerful partner may make it more likely that Ferranti will gain the £2Bn radar contract for the European Fighter Aircraft, which is the ultimate guarantor of the Scottish jobs.

CHEMICALS AND MAN MADE FIBRES

Output in the chemicals and man-made fibres sector in Scotland has fallen by 5% from the revised figure of 105 in the first quarter of 1989 to 100 in the second quarter of 1989. The index of production and construction for Scotland now stands at the same level as it was in 1985. This would tend to indicate a degree of stagnation in this sector in Scotland. The index for the UK stands at 119; unchanged since the last quarter but up 5% on the preceding four quarters. Scotland is 2% down over the same period, once again illustrating that there is still a considerable differential between Scotland and the UK as a whole.

The latest Scottish Chambers Business Survey (SCBS) shows that a balance of 20% of respondents are less optimistic about the general business situation than they were three months ago. The expected trend in new orders is up for a balance of 15% of firms with the bulk of these new orders being from outside Scotland. The trend in expected sales is also up for a balance of 30% of respondents with balances of plus 30 and 32% respectively for expected sales to the rest of the UK and to export sales. Respondent firms are operating at a capacity of 89% and are on balance expecting work in progress to increase by 16% and stocks of finished goods to fall by 33%.



Employment is expected to show a net increase for a 4% balance of respondent firms. This, however, breaks down to a decrease in male employment for 20% of respondents and an increase in female employment for 53% of respondents. The resultant balance figures for employment are -19% and +44% respectively.

High interest rates are beginning to bite with balances of 37% and 4% of respondents showing downward revisions in their investment decisions for plant and equipment and buildings respectively.

Scotland's petrochemical industry seems set for a period of growth. The Shell Expro/Exxon Chemical natural gas liquid (NGL) separation plant and ethylene facility at Mossmorran, Fife, is intending to increase capacity from 3.6 million tonnes annually to 4.9 million tonnes. This is a £100 million construction programme which will result in some 900 construction jobs over a two year period.

Shell are the main movers behind this expansion and say that they are hoping to process natural gas for a "third party", who has not finalised their decision.

Shell Chemicals UK has also announced plans for a pipeline some 250 miles in length at a cost of £90 million. This pipeline will carry the ethylene output of Mossmorran to Shell's plants in North West England. This is seen as quelling hopes for downstream developments at the Fife plant.

Exxon Chemical's Fife Ethylene plant has been breaking production records on a monthly basis. Their production of ethylene is expected to be well over 600,000 tonnes which is well above their original capacity of 500,000 tonnes per annum.

Grangemouth - BP's oil refinery, is to have £50 million invested in the rebuilding of the hydro-cracker damaged in an explosion and subsequent fire two years ago.

BP is now considering an almost twofold increase in production of ethylene at its nearby chemicals facility. This plant accounts for a substantial proportion of the refinery's output. Expansion on this scale, (an additional 250,000 tonnes) may cost in the region of £200 million. A considerable amount of BP's Grangemouth output goes to local customers such as Borg Warner Chemicals, Rohm & Hass and Eni Chem.

The pharmaceuticals industry, on the other hand, is seen as moving towards a period of crisis. This is due to four main causes, viz.:

i) Increasing R&D costs brought about by tougher safety trials prior to licensing,

ii) (a) Tighter controls on budgets of State owned Health Agencies,

(b) 1992 will bring its own problems and price levels will be driven down,

iii) Many large volume selling drugs are nearing the end of their patents and this will lead to a string of generics which will be much cheaper.

iv) The image of drug companies is tarnished because of the side effects of so called "rogue medicines".

There has been increasing merger activity in an effort to achieve economies of scale in the R&D field. The high cost of R&D is certainly not borne evenly by all companies. The generic medicine part of the business is able to exploit short comings in the patent laws and take advantage of their cheaper products. Effective patents are eroded by the long development time necessary to push new medicines through government safety trials. A patent may last 20 years from the date of filing but trials may take up to 12 years and so in the remaining time period it is difficult for research based firms to recoup their heavy R&D costs. A recent EC suggestion is that a patent should be for 16 years from the time of marketing only. With most state owned health agencies keen to reduce costs the generic medicine sector is increasing its sales especially in Japan and the United States where 20 and 25% respectively of the market comes from this sector. Are high costs the price that has to be paid for a healthy pharmaceuticals industry?

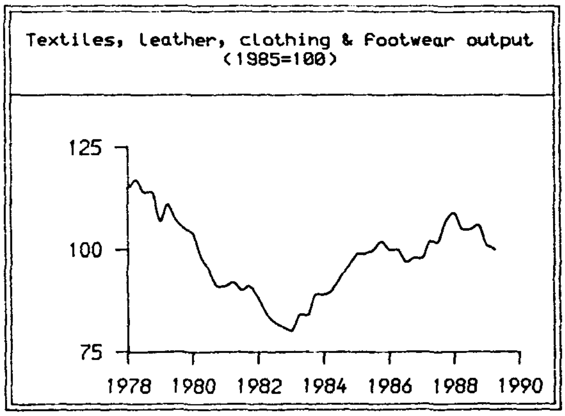
1992 is going to provide serious problems as there exists at present tremendous price differentials, indeed parallel importing is rife. Parallel importing is where a product is purchased in one country and then reimported to another. For example, Zantac, the world's largest selling drug made by Glaxo (of the United Kingdom) may be sold to Greece where it is purchased by a UK wholesaler and then brought back to the UK, at a substantial saving. The UK is the largest consumer of re-imports in Europe. The poorer countries of the EEC have their pharmaceuticals heavily subsidised and it is this that makes parallel importing so profitable.

TEXTILES, FOOTWEAR, LEATHER & CLOTHING

The latest Scottish index of production statistics for this sector show that there has been a fall of 1% between the first and second quarters of 1989. The index for the second quarter of 1988 was 105 compared with the current figure of 100 representing a 5% fall from the same time last year. The 1988 average was 106. The latest UK figure for the second quarter of 1989 was 99 while the 1988 average for the UK was 102.

The results of the latest Scottish Chambers Business Survey paint a rather bleak picture for this sector with a balance of 68% of firms less optimistic about the general business situation than they were 3 months ago. The trend in the volume of new orders is a downward one with a net 62% of respondents reporting that new orders have decreased in the last 3 months. Sales too, exhibit this trend with a balance of 44% of responding companies noting a decrease in the volume of new sales. In both cases this is expected to continue over the near future. The poorest results have come from orders from and sales to the UK with a net 68% of firms suffering decreasing orders from the rest of Britain. 76% of firms said that orders/sales are most likely to limit output over the next three months.

Employment is also showing a downwards trend. A balance of 32% of firms noted a fall in their employment requirements in the last 3 months. A net 40% expect this to continue. Male and female employment have been equally affected by the falling employment levels.



There has been a great deal of speculation concerning the proposed abolition of the Multi-Fibre Agreement. An independent survey commissioned by the Department of Trade and Industry has estimated that 33,000 jobs could be lost if import quota restrictions under the MFA were abolished. The report argues that consumers would gain from a 5% fall in prices. This gain is calculated to amount to £29,700 for each worker who has lost his/her job. The Silberston Report proposes that workers could be compensated and consumers could still benefit while the UK textile industry would have time to adjust to increased competition from developing countries. The report also debates to what extent the British market would be "flooded" by imports. Poor infrastructure and lack of technology in developing countries are seen as barriers to this. In addition, Silberston has proposed that though wage costs are lower in developing countries new technology in the UK overcomes this. Against this it has been countered that automation is still a long way off in the clothing industry thus low cost producers e.g. developing countries will have an advantage. The report concludes that some sectors of the textile industry will be able to compete more effectively than others if the MFA is abolished and some areas of the country, most notably the North West, Scotland and N. Ireland will be vulnerable.

Given the discussion centred round the phasing out of the MFA, the latest figures from the Apparel, Knitting and Textile Alliance should make interesting reading. They show that imports of textiles rose by 8% to £5.6 billion in the first nine months of this year and while exports also increased by 8% to £2.8 billion, their value was not enough to offset the value of the rise in imports. This has widened the textile trade deficit and it is expected that by the end of the year the figure for 1989 could be £3.6 billion - 20% of the total trade deficit. Employment is said to have fallen by 25,000 to below 500,000 in textiles since last Autumn due to increased competition. It is expected that because the pound is now at a lower level there will be an improvement in the deficit although for those firms producing for the home market high interest rates resulting in reduced demand may still result in a poor performance.

The Monopolies and Mergers Commission has given the go-ahead for the £395 million Coats and Tootal merger but with certain restrictions. Coats must sell its interests in the needlework thread market because the market share of both companies combined is over 50%. In addition Coats will also have to sell its 20% share of Gutterman which has a 20% share of the British market. Sales of domestic thread in Britain last year were worth £10 million of which Coats held £1.8 million, Tootal £3.7 million and Gutterman £2 million. The MMC felt that the merger would remove competition and affect the choice and price of domestic thread. The merged company will now have a 37% share of the domestic thread market which is the share at the moment held by Tootal.

There were no problems posed by the merged companies share of the industrial thread market. This will be just over 40% and the MMC ruled that there would be sufficient competition given the number of users and the importance of the quality of thread to the industrial market.

Coats and Tootal have said that the merger will increase efficiency making the joint group more competitive at an international level especially against Japan. The workforce is set to be reduced by 500 to 43,500 but this will take place through natural wastage. Now the only problem on the horizon for the merger is the fact that Coats now want a reduced price for Tootal due to the loss of market share. Discussions on this have still to take place.

Moving from mergers to "de-mergers" - Courtaulds is to split its operation into two distinct companies, one solely involved in textiles, the other in chemicals. Each will have its own board of directors and stock market quotation. Courtaulds textiles will now be one of the biggest textile companies in Europe and will employ 31,000 people. It will encompass all areas of textiles. Last year this side of Courtaulds made operating profits of £50 million on sales of £980 million. The chemicals company - the "new Courtaulds" will employ 22,000 people and last year made £142 million in profit from sales worth £1.75 billion. the "new Courtaulds" will work in fibres, films, coatings, packaging and speciality materials. The demerger is taking place because the two companies have developed differently and are motivated differently. Chemicals depends more on technology while fashion is the main consideration of the textile company. The two sides also have different market structures, chemicals are international in outlook and deal with industry but textiles is based on the home market and sells to retailers.

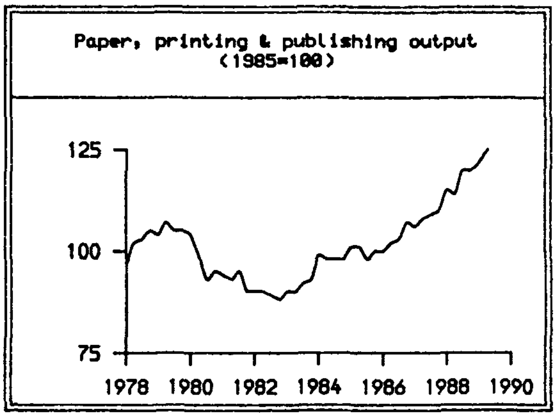
While the demerger is considered to be taking place at the best possible time, Courtaulds is still likely to experience problems with both companies. On the textile front high interest rates and rising imports pose a threat and there is doubt as to whether the chemicals company can remain independent since it will be small compared to its main rivals. Pre-tax profits fell for the joint company in the full financial year to March 31 from £221 million to £197 million and a further fall is expected for the first half figures to November.

Coats Viyella has announced interim pre-tax profits of £55 million - £21 million down on last time. These figures were better than expected. High import levels due to the cheap dollar last year and this years high interest rates are once again responsible for the poor performance. The group is cutting down expenditure on "non-core" businesses and has effected a "shake-out" on the knitwear businesses. There is no fear over job losses but performance is expected to remain sluggish over the medium term.

While a number of firms have announced further job losses since last quarter's Commentary, one piece of good news is that Invergordon is to be the site of a multi-million pound textile plant which will create 170 new jobs. The factory will cost £4 million and is being developed by Caledonian Textiles a new company formed by a group of Hong Kong investors and a UK management team. It will manufacture men's overcoats under leading international labels using the latest technology for the British and overseas market. The Highland and Islands Development Board will build the factory at a cost of £1.25 million and rent it to Caledonian Textiles. It will also put up a financial package of £1.15 million. This venture will bring the number of jobs in the Invergordon Enterprise Zone to 970. 900 jobs were lost to the area in 1983 by the closure of the Invergordon aluminium smelter.

PAPER, PRINTING & PUBLISHING

The latest Scottish index of production statistics for the paper, printing and publishing sector show that there has been a 2% increase in production from the first to the second quarter of 1989. The index now stands at 125 from the previous position of 122. The index for the second quarter of 1988 was 114 - 10% below the current figure while the 1988 average was 117 - 7% lower than at present. Compared with the UK, Scottish production is lagging behind. The UK index for the second quarter of 1989 was 131 - 5% higher than that for Scotland. The latest Scottish figure is on a par with the 1988 average for the UK.



The latest Scottish Chambers Business Survey for the paper, printing and publishing sector has shown that a balance of 36% of respondents is less optimistic about business than 3 months ago. A net 15% of firms have suffered a drop in the volume of new orders and a balance of 10% a fall in new sales over the last 3 months. Both these trends are expected to continue. One good point is that orders from the sales to the rest of the world have done well with a balance of 44% of responding firms showing increases in there new orders and a net 18% raising sales abroad. Over half of the responding firms felt that a lack of orders and sales would most likely limit output over the next 3 months.

The employment situation reflects the falling orders and sales. A balance of 14% of firms have suffered job losses and a net of 21% expect this to continue. Investment decisions for buildings have been revised downwards for a balance of 10% of companies while a balance of 4% revised decisions upwards for plant and equipment.

Last quarter's Commentary gave news of the building of a £140 million newsprint mill at Gartcosh. It is now almost certain that the project will go ahead. A point of interest is that it will be backed by newspaper publishers as well as Abitibi-Price the Canadian paper manufacturing company who have two other joint ventures of this sort in North America. The mill, to be called the North British Newsprint mill, will sell newsprint to publishers and there has been speculation that those publishers with investments in the mill will receive preferential treatment.

There has also been a suggestion of another newsprint development between Reedpack and Daishowa Forest Products, a Japanese owned Canadian paper company. This will be sited in Kent if the project goes ahead but there has been no financial package arranged. High interest rates could put the project in jeopardy.

Scott and Robertson who merged with Alida in June at a cost of £44 million, have suffered a fall in pre-tax profits from £3.8 million to £3.1 million despite sales rising 22% to £83 million. Trading difficulties at Alida have been cited as the reason for this but since it is these that created the conditions for the merger originally, Scott and Robertson have taken the problems on board and expect better second half figures. Reorganisation is set to take place giving the company two executive boards - one largely concerned with industry, agriculture and building products and consisting of mainly Scott and Robertson employees, the other concentrating on retail packaging and being made up of Alida representatives. The name of the company is also likely to change.

The Johnston Press group, based in Edinburgh, has shown a 46% increase in pre-tax profits from £2.03 million in the last half to £2.97 million. Turnover has risen by 16.6% from £17.15 million to £19.99 million. The group brings out titles all over the country both free and paid for but the best results come from their biggest subsidiary the Yorkshire Weekly Newspaper Group. Scottish returns were also good especially in Fife, and the Falkirk free newspapers have been expanded. Printing and typesetting also increased profits as well as there being strong newspaper revenues and solid advertising. The second half is also looking promising with new gains throughout the country which are all likely to contribute to the full year figures.

As a result of a £50 million reorganisation of its newspaper production facilities, D C Thomson the Scottish publisher is set to close its printing facilities in Manchester. 138 jobs will be lost. The restructuring will allow the company to print in colour.

Services

FINANCIAL SECTOR

The arrival of the Sanwa Bank, fifth largest Japanese (and World) bank, may well be the most important financial event of 1989 for Scotland. The structure of Japanese industry and finance with companies belonging to closely inter-related groups suggests that the arrival of the bank could help establish the presence in Scotland of numerous other Japanese companies spread throughout the manufacturing sector. Despite their reputation for making loans to companies at very low (lossmaking?) risk-adjusted rates the major part of Japanese banking business is concerned with serving Japanese companies. In banking, unlike in other industries, cut prices or more particularly lending at low risk-adjusted rates, does not generate permanent market share since products are easy to replicate and there are few barriers to entry. Consequently, strategies that are successful in manufacturing for driving out competitors are inappropriate in international financial markets. Scope exists for the giant Japanese banks to lend to big projects that other smaller banks might look more cautiously at, diversification is as important in banking as in investment portfolio selection, but otherwise banking growth must primarily follow and reflect Japanese trade. Japanese companies in the Sanwa bank 'group' (shareholdings in individual companies may be small by UK standards) will expect to use the bank and its facilities for their business and this could give Scotland a significant edge over other regions in the UK. Faced with a variety of regions offering similar facilities, incentives and relocation packages, the availability of a Japanese bank, and more importantly the information that it is in a position to provide, could be crucial in deciding on a suitable location for UK and European ventures.

The indigenous Banking Sector provided good news this quarter with the publication of the Clydesdale's results. With an almost fifty per cent increase in profits the new Australian owners must feel pleased with their purchase. Unhampered by Third World debt the Clydesdale was able to scale down its bad debt charges with consequent benefits to profits. Indeed, the years the bank suffered under the Midland regime may prove to be a major blessing since it may have prevented the bank from becoming heavily involved in many of the banking developments of the past decade or so. A recent book by T H Donaldson[1] provides a grim reminder of the very real risks that banks face with their transactions in new financial instruments and leaves one speculating on where the next casualty might appear. Of particular interest, given the current high interest rates and downturn in the economy, is the effect on banks of new instruments such as Note Issuance Facilities (NIF) and Multiple Option Facilities (MOF) which allow a borrower to issue notes at a fixed rate relative to LIBOR. Under normal conditions the facility will be unused since it is cheaper to borrow from other sources. The facility will only be used if something unexpected happens such as a change in the borrowers credit risk or deterioration in general market conditions. In other words, the bank will be making loans just when it does not want to. If such loans are prompted by a general market downturn the bank may find itself a major lender to companies under strain with consequences for its own credit standing and cost of funds. Nor do the facilities encourage relationship banking. Faced with a deteriorating client, the bank may wish to force bankruptcy to escape from its obligations to lend money at a level far below the market risk adjusted level. The consequences of these instruments could be severe and with little experience to draw on and a lack of knowledge of the possible obligations that the banks may face, there is cause for concern. The swaps market may not be the only new financial instrument which brings heartache to the banks.

More immediate problems are faced by the TSB with its announcement of job losses and redundancies. The transition from a mutual institution with an excess of funds and relatively restricted lending opportunities to a competitive bank is proving harder than the management foresaw. At the time of issue many commentators noted the very real difficulties that the bank faced and expressed genuine concern at the combination of inexperienced middle and senior management and the pot of gold provided by the flotation. In the circumstances, the management have probably done better than expected and the pressures to improve efficiency and competitiveness, whilst they have been slow in coming, have not been delayed too long. The costs and changes may not be in the short term in Scotland's interest but in the longer term an independent, viable and profitable TSB should be better for Scotland than the alternative of a terminally sick and unprofitable TSB, target for any bidder wishing to acquire a UK network.

The news that Professor Jack Shaw is to step down as executive director of Scottish Financial Enterprise (SFE) provides a suitable time for a reassessment of its role. Professor Shaw saw his job as to get people in Scotland to understand what the financial sector meant and to provide a framework for marketing it internationally. There can be little doubt that it has been a success in this role but is this what it should be all about? To read the SFE newsletter, and this is no criticism of the writers involved, is to be cocooned in a bland environment in which the financial sector in Scotland thrives with few if any problems. But is this truly the state of affairs? Are there no major problems in the financial sector or areas for significant improvement? The very success of SFE in recruiting members, membership has increased from 80 to 250, means that its criticisms must be muted or non existent. It is difficult to criticise a fellow member for lack of innovation and inactivity and yet surely this should be a major function of the organisation. By exposing gaps in provision and inefficiencies SFE could be highlighting areas of opportunity for other members. An organisation that endeavours never to offend is doomed to reduce its utterances to the lowest common denominator. Producing publicity material for Scotland, educational material and visits for members and statistics is a useful function but is it enough? Where is the research that provides systematic estimates of the costs and benefits of location in Scotland or the comprehensive evaluation of the value for money offered by Scottish investment, banking and insurance products? The members of SFE could provide a wealth of data that gave accurate data on costs, skills, communications and the host of other factors that make for a successful financial centre. In short, a few more useful facts on costs and competitiveness and a little less rhetoric might not be a bad precept for the future.

Footnote

1. T H Donaldson, Credit Risk and Exposure in Securitization and Transactions, Macmillan 1989.

DISTRIBUTIVE TRADES

According to the latest SCBS, Scottish wholesalers are now more pessimistic than any time during the history of the SCBS. Despite this, a net of +74% of firms reported increased sales, however, only a balance of +3% of firms expect increased sales during the current quarter (excluding) seasonal factors. Employment rose for a net of wholesale respondents with a balance of +26% of firms recording an increase in total employment; during the current quarter however, this is expected to decline to -6%.

Wholesalers report that the factor most likely to limit sales during the current period is credit facilities.

Table 1 shows the geographical breakdown of November SCBS wholesale respondents.

Optimism is low in all areas, however sales remain buoyant.

Despite high interest rates, retail sales increased for a net of +44% of firms. Interestingly, however, only +3% on balance expect further short-term sales growth in spite of the forthcoming Christmas period. On balance, employment rose in the retail sector, but during the current quarter a balance of -5% of firms expect it to decline.

Table 1 Geographical responses to November SCBS - wholesaling

	Balance of Respondents				
	G %	E %	D %	A %	All %
Overall confidence	-60	-18	-63	-26	-38
Actual sales	+67	+69	+85	+74	+74
Expected sales	-17	+23	-34	+27	+3
Actual employment	+5	-4	+89	+16	+26
Expected employment	-33	-9	+2	+5	-6
Investment intentions	+27	+4	+27	+1	+16

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

Table 2 provides a geographical summary of the November SCBS retail responses.

Table 2 Geographical responses to November SCBS - Retailing

	Balance of Respondents				
	G %	E %	D %	A %	All %
Overall confidence	-29	-48	-65	+13	-27
Actual sales	+17	+73	+36	+94	+44
Expected sales	+5	+66	-52	+51	+3
Actual employment	+15	-14	-14	+49	+14
Expected employment	-1	-32	-61	+74	-5
Investment intentions	+10	-1	-5	+24	+12

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

From the table the Aberdeen retailing sector is consistently optimistic, not surprising given the favourable economic state of the area.

There were reports by the Central Statistical

Office claiming that stockbuilding by Britain's retailers fell sharply in the three months to September. High street shops reacted to slowing domestic demand by reducing goods held. the figures show that the retail sector built up stocks worth £25m in the third quarter compared with £235m in the previous three months.

The figures also show that stockbuilding by the wholesale sector increased between July and September from £39m to £145m.

TRANSPORT AND TRANSPORT EQUIPMENT

Strathclyde Region has given approval for £33m worth of construction work on two new by-passes at Stepps and Johnstone. The larger of the two at Stepps, which will cost £22.5m, is intended to relieve the present heavy congestion on the Glasgow-Cumbernauld road when it opens in mid-1991.

Elsewhere in Strathclyde, controversy has arisen over the Secretary of State's decision to allow the construction of a new road linking Glasgow to Ayr. Glasgow District refused consent for the road from the M77 at Dumbreck last year on the grounds that it would have severe environmental effects on the residents of Darnley and Corkerhill, the latter of whom would be cut off from other local communities and have their estate bounded by a barbed wire fence, a motorway, a railway line and a river. Local officials at the time contrasted the £40m spending on the road with the government's reluctance to re-open the Paisley Canal rail line which served the local community, although this has now been reversed. Following an enquiry, the Minister has now sanctioned the new road.

The CBI's transport plans for the 1990's have called for major new spending on roads in Scotland. At the UK level, it has estimated that the current cost of traffic congestion could be up to £15b per annum, some of which will of course be generated in Scotland. More importantly however, the plans point to some specific problems which an inadequate network in Scotland will cause in the next decade as the Channel Tunnel and the 1992 programme begin to take effect. Major distribution problems are envisaged unless action is taken to upgrade routes to the south, and the CBI argue that priority must be given to upgrading the M74 and the A1 East Coast routes.

In the bus sector, the major news has been the decision by Kelvin Central to close its East Kilbride and Wishaw depots. Management argues that the closures are necessary because the company has failed to recover the business it lost because of the strike earlier this year, and it seems likely that some local services in East Kilbride and the East Kilbride-Glasgow route will be under threat. Other services will originate and terminate at the companies depots in the north of Glasgow, which could cause problems with delays. The unions argue that the closures have a more sinister aim, that of reducing the funds at the disposal of the workforce who wish to buy the company when it is privatised, and this is one of a series of such disagreements which have arisen between management and unions in the run up to privatisation. To date, the government has not specified which, if any, of these options it would prefer or in what manner such disagreements should be resolved. The Minister of State's has so far only has given indications that internal bids would be preferred over outside bids, but there is as yet no indication of how this might be achieved or of what would happen if an external bid is highest. This has been contrasted with the situation in England, where internal bidders for the constituent parts of the National Bus Company were allowed to bid at a 5% discount.

On the railways, British Rail is to spend £12.5m on electrifying track between Edinburgh and Carstairs. As well as cutting journey times between Edinburgh and the West Coast of England by up to 70 minutes because of the removal of the need to change traction systems, this will also allow the possibility of efficiently operating regular services from Glasgow to the East Coast of England, although no new services which will use the new link have yet been announced.

In Transport Equipment, Volvo Trucks, Scotland's only remaining volume vehicle manufacturer, has announced record profit and production levels at their Irvine plant.

Profits rose to £23.4m on a £307m turnover. The plant is now the largest UK producer of large trucks and there are further prospects of increasing sales if the new Highlander model, which was designed at Irvine, takes off as expected. The Swedish army has ordered 16 Highlanders for trials with an option of 200 more.

It now appears that the Royal Navy is likely to order four Type-23 frigates and that Yarrow's will obtain two or three of these. Yarrow's heavy investment in design of the Type-23 and the £8.5m spent on the construction of a modular hall mean that it has an edge over its competitors, and can deliver a vessel for under £150m. Conversely however, Yarrows is very heavily dependent on orders for this single model, which has so far failed to generate export orders in the hoped for quantities. Confirmation of the above orders in the New Year would be a great relief for the workforce.

HEALTH

In early December the Scottish Office announced its new spending plans for Scotland over the next three years. Planned gross expenditure on health for 1990-91 totals £3,041 million, £220 million (7.8%) higher than the estimated outturn for 1989-90. For 1991-92 and 1992-93 planned gross expenditure on health rises to £3,190 million and £3,330 respectively.

The government published its NHS and Community Care Bill on 22nd November. The Bill follows hard on the heels of the Community Care White Paper, issued just 6 days before, the Working for Patients White Paper having been published on 31st January. A lengthy gestation period followed the Griffiths Report of March 1988, but finally the government has decided that the key coordination role in community care should be performed by the local authorities, albeit with the injunction that the voluntary and private sectors should play an increasing role in the actual provision of community care facilities. The government appears to have paid little attention to many of the criticisms of the January White paper. It is determined to go ahead with NHS Trusts to run hospitals and other health units, with fundholding GP practices which will be able to place contracts for out-patient and in-patient services wherever (NHS or private sector) they choose, with indicative drug prescribing budgets for GPs, and with a series of contractual arrangements throughout the health service.

There are perhaps two genuflections to the noisy debate generated by the White Paper. First, Ministers assert that GPs will not be cash limited in prescribing drugs, only subject to the indicative budgets which are, or should be, about 'best practice'. The task of persuading GPs to stick within indicative budgets whilst at the same time they remain unlimited by cash considerations is likely to be a tricky one! Second, contracts within the health system will not have legally enforceable status, which may keep the lawyers out, but raises some interesting issues. An excellent short article by Law lecturer David Carson in The Health Service Journal (19th October 1989) indicates that enforcing contracts in the business world seems to be the exception rather than the norm, with contracts largely being used as a basis to establish relationships and for further negotiations. Carson is sceptical about the use of contracts as presently contemplated in the health service, suggesting that the extension of explicit resource management and accountability may better serve the cause of improving the health service.

Meanwhile, to continuing and considerable scepticism on the part of health service professionals and other commentators, not least about the timing of the White Paper proposals, substantial sums of money are to be spent on the information, costing and management aspects of the proposals: over £200 million per year, with a requirement for around 3500 additional permanent employees. This is likely to be the first tranche of additional allocative costs arising from the implementation of the new systems.

Back on the contract front, the regulations for the new GPs contract, to operate from 1st April 1990, were laid before Parliament on 1st November. These confirm specific provisions for Scotland viz. Basic Practice Allowance supplements for GPs working in deprived areas and the retention of the Scottish Rural Practices Fund.

The next stage of the fascinating war over the future shape and nature of the NHS is likely to be a series of local battles over the willingness or otherwise of hospitals to opt for trust status and GPs for budget-holding status. Given the Scottish Health Minister's enthusiasm for the cause, some of the Scottish battles will be fiercely fought.

The Labour Market

THE LABOUR MARKET

Employment: Stocks and Flows

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. Past Commentaries have drawn attention to the significant under-reporting of employment growth which 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 extent 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 thousand or roughly 1.4 per cent over the year to March 1989. The revised estimates show an increase of 18 thousand 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 thousand, which is equivalent to a decrease in estimated employment levels of 1.1% of the employment stock.

Recall that 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 thousand to 361 thousand, implying that estimates of full-time female employment had increased by some 8 thousand.

The most recent employment data (available only on the basis of census induced revisions) are for June 1989, and those are also reported in tables 1 and 2. Overall, total employees in employment increased by 13 thousand (0.7%) in the year to June 1989. Male employees in employment fell by 3 thousand (0.3%), and total female employment increased by 15 thousand (1.5%), of which 3 thousand was part-time. Four thousand of the increased employment occurred in manufacturing and nine thousand in services. This is broadly in line with longer term trends, although more concentrated in favour of full-time rather than part-time female employment, perhaps reflecting some recovery in manufacturing employment. The fall in male employment does, though raise question marks about the more optimistic view of recent Scottish labour market developments.

Over the year to June 1989 the biggest employment gains were registered by: banking, insurance and finance (7,000); education, health and other services (6,000); retail distribution (4,000); metal goods etc. (3,000). The major employment loss, of 9,000, 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

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	[28]	[58]	[47]	[164]	[201]	[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]		[170]		[179]		[455]

Source: Department of Employment Gazette of all, being the only region to register a fall in employees in employment (of 23 thousand 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 (e.g. 0.7% over the year to March 1989 compared to a UK average of 1.4%).

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

Thousands

	Census 1984	Census 1987	Change Number	%
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

Vacancies: Stocks and Flows

Over the year to October 1989 unfilled vacancies at job centres in Scotland fluctuated between 19.8 (17.0) and 23.4 (23.1) 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

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

	Seasonally adjusted Number	Change since prev. month	Average chge over 3 months ending	Unad-justed Total	Vacancies at Career Offices 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

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

Source: Employment Department Press Notice

were of a similar order of magnitude to the outstanding stock of vacancies in each month. For example, in October 1989 inflows of 24.1 thousand

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

Thousands

Date	In-flow Level	In-flow Average change 3 months ended	Out-flow Level	Out-flow Average change 3 months ended	of which: Placings Level	of which: 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(p)	24.1	0.7	23.4	0.5	19.8	0.4

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	Change since previous month	Average change over 6 months ending	Unemployment rate percentage of working population
1984		235.2	106.4	341.6			14.0
1985		243.6	109.3	353.0			14.2
1986		248.1	111.8	359.8			14.5
1986	Dec	242.6	104.8	347.4	1.2	1.1	14.0
1987	Dec	218.2	90.5	308.7	-2.6	-4.2	12.4
		(214.5)	(87.8)	(302.3)	(2.8)	(-4.1)	(12.2)
1988	Jan	216.0	90.2	306.2	-2.5	-4.1	12.3
		(212.4)	(87.3)	(299.7)	(-2.6)	(-3.9)	(12.1)
	Feb	213.5	89.9	303.4	-2.8	-2.8	12.2
		(209.7)	(86.9)	(296.6)	(-3.1)	(-3.7)	(11.9)
	Mar	211.6	88.5	300.1	-3.3	-3.4	12.1
		(207.7)	(85.6)	(293.3)	(-3.3)	(-3.4)	(11.8)
	Apr	208.8	86.5	294.9	-5.2	-3.4	11.9
		(204.6)	(83.8)	(288.4)	(-4.9)	(-3.5)	(11.6)
	May	206.0	85.1	291.1	-3.8	-3.4	11.7
		(202.5)	(82.3)	(284.8)	(-3.6)	(-3.4)	(11.5)
	Jun	202.5	83.4	285.9	-5.2	-3.8	11.5
		(199.0)	(80.7)	(279.7)	(-5.1)	(-3.8)	(11.3)
	Jul	199.3	82.7	282.0	-3.9	-4.0	11.4
		(196.0)	(79.9)	(275.9)	(-3.8)	(-4.0)	(11.1)
	Aug	197.5	82.1	279.6	-2.4	-4.0	11.3
		(194.3)	(79.1)	(273.4)	(-2.5)	(-3.9)	(11.0)
	Sept	201.0	82.1	283.1	3.5	-2.8	11.4
		(194.2)	(78.1)	(272.3)	(-1.1)	(-3.5)	(11.0)
	Oct	(193.4)	(76.7)	(270.1)	(-2.2)	(-3.1)	(10.9)
	Nov	(191.0)	(75.5)	(266.5)	(-3.6)	(-3.1)	(10.7)
	Dec	(186.7)	(73.5)	(260.2)	(-6.3)	(-3.3)	(10.5)
1989	Jan	(184.0)	(72.6)	(256.6)	(-3.6)	(-3.2)	(10.3)
	Feb	(181.7)	(71.7)	(253.4)	(-3.2)	(-3.3)	(10.1)
	Mar	(180.2)	(70.3)	(250.5)	(-2.9)	(-3.6)	(10.0)
	Apr	(175.1)	(68.2)	(243.3)	(-7.2)	(-4.5)	(9.7)
	May	(172.8)	(66.7)	(239.5)	(-3.8)	(-4.5)	(9.7)
	Jun	(170.0)	(65.0)	(235.0)	(-4.5)	(-4.2)	(9.4)
	Jul	(168.9)	(63.9)	(232.8)	(-2.2)	(-4.0)	(9.4)
	Aug	(167.7)	(63.3)	(231.0)	(-1.8)	(-3.7)	(9.3)
	Sep	(163.0)	(61.8)	(224.8)	(-6.2)	(-4.3)	(9.1)
	Oct(p)	(159.5)	(60.5)	(220.0)	(-4.8)	(-3.9)	(8.9)

Source: Employment Department Press Notices

(p) Provisional and subject to revision.

(r) Revised.

(over 3,000 more than the previous year) were nearly matched by outflows of 23.4 thousand. Accordingly, during 1988 there were 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 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.

October 1989 saw a fall of some 4.8 thousand (0.2 percentage points) in total unemployment (of which 3.5 thousand was attributable to males and 1.3 to females), which fell to below 9% of the workforce for the first time since 1981 (although changes in definitions complicate such comparisons). In the third quarter of 1989 unemployment also fell by around six thousand. Over the year to october 1989 total unemployment fell by about 50 thousand, from 270 thousand or 2 percentage points. This represents a reduction in the level of unemployment of 18.5 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 15,000 among females.

Note that, over the year to June 1989 total unemployment fell by 44.7 thousand, of which 29 thousand were male, whilst male employees in employment actually fell by 3 thousand over the period. However, it still appears that other main components of the civilian labour force in employment, notably the self-employed and those engaged in work-related government training.

Table 7 presents recent flows into and out of the unemployment stock. In October 1989 inflows were, at 24.1 thousand, about 13.8 thousand less than in the same month of 1988, although outflows were, at 38.2 thousand, 16.3 thousand less than in October 1988. Although gross outflows in October were rather low by recent standards, if they were maintained the unemployment stock of 220 thousand would turnover is less than 7 months.

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

* The September figures are biased by the postal strike.

Scottish Industrial Relations

The engineering workers stoppage in support of the 35 hour week continues to be the major dispute in Scottish industrial relations. Neither side has made any significant moves in this long running dispute involving a number of firms in the engineering industry. Managements clearly engaged in a degree of stockpiling before the dispute and only now appear to be prepared to negotiate a local settlement. One expectation is that the unions may well find support for the levy fading amongst members of the unions as the Christmas season nears. Nearly all parties agree that the dispute will lead to a further weakening of the national system of bargaining; company or enterprise bargaining will become the dominant pattern within the industry.

The second long running dispute involving journalists at the Aberdeen based Press and Journal stems from threat to withdraw recognition and bargaining rights for NUJ members. There is much to suggest that membership was declining and would have ceased to be a significant feature without any management intervention. However, the intervention appears to have exacerbated the issue.

Compulsory Competitive tendering within the local authority sector continues to cause manning and labour difficulties, although, as yet concerns have been at the political level over the loss of a number of contracts. To compete for contracts has required both local authorities and private firms to introduce new manning and work arrangements. These are creating considerable difficulties and problems in a number of areas. However, as yet it is unclear as to whether the problems will lead to industrial action or to increased problems of the supply and retention of labour.

Likely difficulties in recruitment, shortages of labour and deficiencies in training arrangements were highlighted in a recently published report on company training and employment practices amongst firms in Scotland (the remainder of this section draws on the summary to this report).*

Difficulties in recruitment of staff were found with regard to skilled workers (38% of companies), technical and professional (28%) and managerial (26%). There were fewer reported problems for retention, possibly due to the development of the personnel practices outlined below.

The survey indicated that many companies were introducing personnel policies consistent with awareness to technology and labour market change. Particularly prominent were performance appraisal (78% of companies), job evaluation (57%) and performance related pay (49%). Nevertheless, personnel representation at board level was not common, one indicator of the importance attached to personnel and training, being reported in only 22% of organisations. Almost half (49%) of respondents replied that the most senior training representative had NO formal training qualifications. Furthermore the survey indicated that two thirds of senior trainers spent less than 10% of their working time on training issues.

A majority of employers in the survey indicated that their organisations participated in the YTS (55% to 44%; with higher rates of participation among larger employers [67%] than small [39%] and with participation slightly more common in unionised companies than non-unionised). The most common explanations for non-participation were that

- the scheme is inappropriate for company needs (14 companies out of 44)
- companies used their own training (10 companies)
- YTS is "not required" (8 companies)

The most reported reasons for participating in YTS are cost effective recruitment and an opportunity to train young people. The proportions of trainees taken on by their employers following training on the scheme has grown steadily over the past four years. Also, there is a growing tendency to pay more than the basic allowance provided by the scheme. The most common occupation for YTS trainees is in clerical and administrative positions.

The survey found a less encouraging picture with regard to Employment Training, the other strand of government interventions, 88% of companies claimed that they did not participate in the scheme. Only 12 companies (7 large, 3 medium and 2 small companies) replied that they are already participating in the scheme.

Many Scottish-based firms provide little or no training for their managers. Just under one quarter of companies do not provide any specific allocation of finance for management training; in addition almost 30% of companies fail to allocate a single days training for senior management and supervisory staff (although this falls to 21% among middle management).

However, 21% of companies did allocate approximately half of their training budget to management development and training, with a further 11% spending between 61-100%. In terms of time, 30% of companies offered more than five days training to senior managers, 39% offered more than five days to middle managers and 28% of supervisory staff received more than five days. In the main, companies tended to offer between 1 and 5 days training to their managerial staff.

Small companies were less likely than larger firms to invest in management training; for instance, 42% of small companies failed to make any specific allocation to management training as opposed to 15% of medium sized and 5% of large companies.

One of the most important developments in the light of new technology has been the increased pressure on the employer to retrain existing staff in computer and related skills. This is a reflection of the relative shortage of specialist computer staff available on the labour market. It is also a reflection of the cost of recruiting specialist staff as against retraining.

For those companies which do employ specialist computer staff, most had recruited their specialists (83%) or had retrained existing personnel (88%), or both. Nevertheless more than half of the companies surveyed had yet to employ any specialist computer staff and this failure has obvious implications for their capacity to respond.

The 106 organisations covered in the survey employed a total of 82,095 in Scotland, and in the UK as a whole, more than half a million people. Using this broad base, the findings are likely to be strongly indicative of practice and movements in Scotland generally. The link to successful adaptation to change is, of course, through training. Increased flexibility, technological competence, and key staff commitment, if they are to be achieved, must be accomplished through a training strategy closely integrated with personnel practice. Some signs of change in personnel practice were evident; there are still some doubts about the extent and depth of company commitment to training, as articulated in the qualifications of trainers and the time and resources provided for training activities.

In the past sluggish economic performance would deter companies from investing in technology and in training. It remains to be seen whether the present combination of poor economic forecasts and exceptionally high interest rates (a major potential barrier to investment) will exert a similar deterrent effect on company training and development activities.

Another important factor which will influence training provision at work is the approach adopted by government. The present administration plans to devolve training to Local Enterprise Companies (LECs) with a prominent role for private sector employers.

The survey found very substantial differences in the amounts of training provided and approaches adopted to training between large and small companies; clearly their needs are different, and it is important that these different needs be adequately represented and expressed on each LEC board. Otherwise, there is considerable risk that indigenous small firm interests may be subsumed by larger concerns whose training requirements may reflect broader organisational as well as local needs.

* "A Training Revolution? The Experience of Scotland" by J Hyman and K Bell. Discussion Paper No. 1, The Department of Organisation, Management and Employment Relations, University of Strathclyde, £7.50.

Table 1: Unemployment by region

	% rate Oct 89 Narrow	% rate Oct 89 Wide	Total Oct 89	Total Oct 88	Total Annual Change	% Change in Annual Totals	Total Jul 89	Total Quarterly Change	% Change in Quarterly Totals	Total Sep 89	Total Monthly Change	% Change in Monthly Totals
Borders	5.1	4.3	2,087	2,404	-317	-13.2	2,211	-124	-5.6	2,132	-45	-2.1
Central	10.2	9.0	10,834	12,491	-1,657	-13.3	11,273	-439	-3.9	10,980	-146	-1.3
Dumfries & Galloway	7.6	6.2	4,352	6,066	-1,714	-28.3	4,675	-323	-6.9	4,420	-68	-1.5
Fife	10.3	9.1	13,244	16,545	-3,301	-19.9	14,595	-1,351	-9.3	13,602	-358	-2.6
Grampian	4.7	4.1	11,090	15,374	-4,284	-27.8	12,473	-1,383	-11.1	11,563	-473	-4.1
Highland	9.1	7.6	7,636	10,268	-2,632	-25.6	7,813	-177	-2.3	7,453	+183	+2.5
Lothian	7.4	6.7	26,864	34,158	-7,294	-21.1	29,823	-2,959	-9.9	28,178	-1,314	-4.7
Strathclyde	12.3	11.0	120,697	146,133	-25,436	-17.4	130,719	-10,022	-7.7	123,680	-2,983	-2.4
Tayside	8.8	7.7	14,959	18,416	-3,457	-18.8	16,383	-1,424	-8.7	15,554	-595	-3.8
Orkney Islands	7.0	5.1	493	701	-208	-29.7	537	-44	-8.2	519	-26	-5.0
Shetland Islands	4.0	3.3	410	638	-228	-35.7	440	-30	-6.8	402	+8	+2.0
Western Islands	13.1	10.5	1,459	2,052	-593	-28.8	1,410	+49	+3.5	1,460	-1	-0.1
Scotland	9.7	8.6	214,125	265,246	-51,121	-19.3	232,352	-18,227	-7.8	219,943	-5,818	-2.6

Source: Department of Employment

19.3 average Scottish decline was also surpassed in Grampian (27.8%), Highland (25.6%), Lothian (21.1%) and Fife (19.9). 49.8% of Scotland's fall in unemployment is attributable to Strathclyde where unemployment fell by 25,436, or 17.4% of October 1988's total. Declines well below the Scottish norm were experienced in Central and the Boarders where respective unemployment totals fell by 13.3% and 13.2%.

Further evidence of the inter-regional variations in unemployment changes can be seen on examination of the quarterly changes in unemployment totals. The strongest performances occurred on the mainland with declines of 11.1%, 9.9% and 9.3% experienced in Grampian, Lothian and Fife. Declines in excess of the 7.8% Scottish average were also noted for Tayside (8.7%) and the Orkney Islands (8.2%). The Borders and Central did not perform particularly well with declines of only 5.6% and 3.9%. The mainland region witnessing the lowest proportional decline is the Highlands which despite experiencing a 25.6% fall in its annual totals, saw only a 2.3% reduction in its unemployment totals over the past three months. The Western isles was the only local authority region to see an increase in its quarterly unemployment totals with 3.5% or 49 more people out of work in October than was the case in July.

Two areas also witnessed increases in their monthly totals. This time Highland Region fared worst with a 2.5% increase in unemployment between September and October. The Shetland Islands, which is normally one of the strongest regional labour markets, saw a rise of 2%. However, this only represents 8 people and could be due to seasonal factors. The Orkney Islands saw the most substantial decline in proportional terms with a fall of 5%. Declines in excess of Scotland's 2.6% fall were also noted for Lothian (4.7%), Grampian (4.1%) and Tayside (3.8%). The Western Isles saw only one person less unemployed in October than in the previous month. Central again fared badly with a drop on only 1.3%.

Analysing the narrow based rates, Strathclyde still remains the mainland region with the highest unemployment rate with 12.3% of the total workforce out of employment. This however is an improvement on last quarter's 12.9%. The Western Isles however, once more surpassed Strathclyde with an unemployment rate of 13.1%. Fife (10.3%) and Central (10.2%) also had unemployment rates in excess of the Scottish 9.7% average. On the mainland, Grampian still has the lowest rate with only 4.7% of its workforce out of employment. The Borders with a rate of 5.1% is also doing notably well. The Shetland Islands still remain the local authority area with least unemployment with only an unemployment rate of 4%.

As has already been said, regional unemployment rates are now also calculated using a broader definition of the workforce which now incorporates the self-employed, HM Forces and those on work related government training programmes. For Scotland as a whole, the difference between the wide and narrow rate is 1.1%. However there are considerable variations throughout Scotland in the difference between the two rates. On the mainland this ranges from 0.6% in Grampian to 1.5% in Highland. On the Islands, the variations are even more dramatic ranging from 0.7% in Shetland to 2.6% in the Western Isles.

In terms of the wider unemployment rate, Strathclyde now outranks the Western Isles with a rate of 11%. The other rankings in general stay the same with Shetland's rate now only 3.3%.

Table 2 shows the male unemployment situation. In the twelve months to October 1989, male unemployment in Scotland fell by 34,424 to stand at 155,339. This 18.1% reduction in totals bring the male unemployment rate to 10.8%, broad base and 12.7% on the narrow definition. Male rates are no longer published for Scottish local authorities. There continues to be declines in the quarterly and monthly male unemployment totals by 6.2% and 2.1% respectively.

The most substantial proportional declines in male unemployment were again witnessed in the Islands Authorities where declines ranged from 32.6% in Shetland to 29.5% in the Western Isles. Declines in excess of 25% were also recorded in Dumfries and Galloway (27.1%), Grampian (26.5%) and Highland (25.2%). Although more than half of the Scottish fall in male unemployment occurred in Strathclyde, for the region this represented a below average 16.4% decline. The trend noted for total unemployment in the Borders and Central is again repeated for male unemployment with considerably below average declines of 9.8% and 10.9%.

Proportional reductions in male unemployment were recorded in the three months to October 1989 in all mainland regions. Fife experienced the

Table 2: **Male unemployment by region**

	Total Oct 89	Total Oct 88	Total Annual Change	% Change in Annual Totals	Total Jul 89	Total Quarterly Change	% Change in Quarterly Totals	Total Sep 89	Total Monthly Change	% Change in Monthly Totals
Borders	1,444	1,601	-157	-9.8	1,508	-64	-4.2	1,454	-10	-0.7
Central	7,494	8,413	-919	-10.9	7,671	-177	-2.3	7,568	-74	-1.0
Dumfries & Galloway	2,840	3,897	-1,057	-27.1	3,003	-163	-5.4	2,867	-27	-1.0
Fife	9,177	11,311	-2,134	-18.9	10,093	-916	-9.1	9,447	-270	-2.9
Grampian	7,440	10,119	-2,679	-26.5	8,168	-728	-8.9	7,625	-185	-2.4
Highland	5,347	7,144	-1,797	-25.2	5,429	-82	-1.5	5,282	+65	+1.2
Lothian	19,591	24,440	-4,849	-19.8	21,464	-1,873	-8.7	20,433	-842	-4.1
Strathclyde	89,914	107,610	-17,696	-16.4	95,431	-5,517	-5.8	91,640	-1,726	-1.9
Tayside	10,393	12,787	-2,394	-18.7	11,217	-824	-7.3	10,665	-272	-2.6
Orkney Islands	319	466	-147	-31.5	353	-34	-9.6	339	-20	-5.9
Shetland Islands	256	380	-124	-32.6	254	+2	+0.8	248	+8	+3.2
Western Islands	1,124	1,595	-471	-29.5	1,055	+69	+6.5	1,115	+9	+0.8
Scotland	155,339	189,763	-34,424	-18.1	165,646	-10,307	-6.2	158,683	-3,344	-2.1

Source: Department of Employment

biggest decline with a reduction of 9.1%. Grampian (8.9%), Lothian (8.7%) and Tayside (7.3%) also all fared well bettering the 6.2% Scottish average fall. Highland had a poor performance with a drop of only 1.5%. Considerable disparity in the quarterly totals is evident for the Island Authorities. Shetland had only a negligible increase in its unemployment with 2 additional males unemployed in October compared with July. The Western Isles witnessed a 6.5% increase in male unemployment in those three months. Orkney on the other hand saw a 9.6% fall.

The trend for the Islands is continued in the monthly totals. Orkney had a 5.9% decline in unemployment amongst males, well above the 2.1% Scottish fall. Shetland and the Western Isles both had increases but of different magnitude 3.2% and 0.8% respectively. On the mainland, Highland was the only authority recording a rise in male unemployment with a 1.2% rise. Lothian saw the most susbstantial decline with a drop of 4.1%. Falls in excess of Scotland's 2.1% drop were experienced in Fife (2.9%), Tayside (2.6%) and Grampian (2.4%).

An indication of the current state of the female labour market can be gleaned from Table 2. As the table shows, female unemployment in Scotland fell from 75,483 in October 1988 to 58,786 in October 1989, a fall of some 16,697. This 22.1% drop in female unemployment leaves Scotland with unemployment rates of 5.7% (broad based) and 6.0% (narrow based).

For all the mainland authorities, there was a more substantial drop in female unemployment than in that for males. For Orkney and the Western Isles the reverse is true. The largest proportional decline was experienced in Shetland where 40.3% fewer females were unemployed in October of this year compared with the 12 months previous. Declines in excess of 30% were also recorded in Grampian (30.5%) and Dumfries and Galloway (30.3%). Strathclyde again performed below average despite witnessing a 20.1% decline in annual totals. Below average drops were recorded in the Borders, Tayside and Central with respective falls of 19.9%, 18.9% and 18.1%.

In the quarter ending October 1989, all local authorities saw falls in female unemployment. The Shetland Islands saw the biggest proportional decline with 17.2% less female unemployment in October compared with July. Grampian and Lothian with falls of 15.2% and 13.0% were not far behind. Unusually Strathclyde also bettered the Scottish average with a drop of 12.8% or 4,505 females. At the other extreme, the smallest changes were witnessed in the Western Isles and Orkney with drops of 5.6% and 5.4%.

Highland was the only region experiencing a rise in monthly totals for female unemployment with 118 more females out of work in October compared with September. There was no change in Shetland but declines in other authorities ranged from 7.3% in Grampian to 2.1% in Central. In the absence of sub-Scottish male and female unemployment rates it is difficult to further analyse the figures comprehensively but it would appear that the female labour market is performing better than that for males.

The issue of the inter-relationship between unemployment and vacancies is addressed in Table 4. The number of vacancies reported in each local authority is presented along with an unemployment/vacancy ratio calculated using the unemployment figures contained in table 1. Whilst comparing the number of available vacancies with unemployment levels can be useful, caution should be exercised when interpreting the table for a number of reasons.

Data is only available on unfilled vacancies notified to Job Centres and Careers Offices on the reporting date.

Nationally, only about one-third of unfilled jobs are notified to Job Centres and these tend to be for lower paid and lower skilled jobs. Hence, a complete picture of the current demand for labour cannot be formulated from published vacancy data.

Vacancies are usually recorded to either Job Centres (who mainly deal with openings for over 18s) or Careers Offices (who mainly deal with opportunities for young persons under 18 years of age). Occasionally, however, the same vacancy will be notified to both services or to more than one Job Centre and this could be included in more than one vacancy count. There is therefore likely to be some incidence of measurement error.

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,

Table 3: Female unemployment by region

	Total Oct 89	Total Oct 88	Annual Change	Total in Annual Totals	% Change Total Jul 89	Total Quarterly Change	% Change in Quarterly Totals	Total Sep 89	Total Monthly Change	% Change in Monthly Totals
Borders	643	803	-160	-19.9	703	-60	-8.5	678	-35	-5.2
Central	3,340	4,078	-738	-18.1	3,602	-262	-7.3	3,412	-72	-2.1
Dumfries & Galloway	1,512	2,169	-657	-30.3	1,672	-160	-9.6	1,553	-41	-2.6
Fife	4,067	5,234	-1,167	-22.3	4,502	-435	-9.7	4,155	-88	-2.1
Grampian	3,650	5,255	-1,605	-30.5	4,305	-655	-15.2	3,938	-288	-7.3
Highland	2,289	3,124	-835	-26.7	2,384	-95	-4.0	2,171	+188	+5.4
Lothian	7,273	9,718	-2,445	-25.2	8,359	-1,086	-13.0	7,745	-472	-6.1
Strathclyde	30,783	38,523	-7,740	-20.1	35,288	-4,505	-12.8	32,040	-1,257	-3.9
Tayside	4,566	5,629	-1,063	-18.9	5,166	-600	-11.6	4,889	-323	-6.6
Orkney Islands	174	235	-61	-26.0	184	-10	-5.4	180	-6	-3.3
Shetland Islands	154	258	-104	-40.3	186	-32	-17.2	154	0	0
Western Islands	335	457	-122	-26.7	355	-20	-5.6	345	-10	-2.9
Scotland	58,786	75,483	-16,697	-22.1	66,706	-7,920	-11.9	61,260	-2,474	-4.0

Source: Department of Employment

the unemployment/vacancy ratio will be lower than that indicted in Table 4. This effect is offset to some degree by the fact that not only registered unemployed people are likely to be competing for the vacancies.

Table 4: Registered vacancies* and unemployment/vacancy (U/V) ratios by region, Oct 1989

	Total Vacancies+		U/V Ratio+	
Borders	559	(685)	3.73	(3.2)
Central	1402	(1273)	7.73	(11.3)
Dumfries & G/way	585	(640)	7.44	(7.3)
Fife	1091	(930)	12.14	(15.7)
Grampian	3554	(3209)	3.12	(3.9)
Highland	1302	(1750)	5.86	(4.5)
Lothian	3892	(3425)	6.90	(8.7)
Strathclyde	11639	(10318)	10.37	(12.7)
Tayside	1778	(1411)	8.41	(11.6)
Orkney Is.	70	(126)	7.04	(4.3)
Shetland Is.	75	(124)	5.47	(3.5)
Western Is.	70	(87)	20.84	(16.2)
Scotland	26017	(23976)	8.23	(9.7)

* Unfilled Vacancies at Job Centres and Careers Offices.

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

Source: Department of Employment

Despite these shortcomings, analysis of data relating to vacancy levels and unemployment/vacancy ratios give a useful guide to regional variations and any trends which may be developing.

In October 1989, 26,077 unfilled vacancies had been notified to Job Centre and Careers Offices. This was 2,041 (8.5%) more than were notified in July. Coupled with a fall in unemployment a further reduction in the Scottish U/V ratio has been effected. This now stands at 8.23 comparing well with last quarter's 9.7.

There is considerable disparity amongst the local authority regions in the changes in vacancy levels which occurred between July and October. All three Island Authorities witnessed drops in their levels of vacancies ranging from a 44.4% drop in the Orkney Islands to a 19.5% drop in the Western Isles. Of the mainland areas, three out of the nine had drops with Highlands 25.6% decline the most substantial. The most substantial proportional increase was experienced by Tayside with a 26% increase in vacancy levels in the quarter to October 1989.

In six of the twelve regions, the U/V ratio declined. The biggest declines were recorded in Fife and Central where October's U/V ratio is 3.5 lower than July's. The most notable increase in ratio occurred in the Western Isles where the ratio rose from 16.2 to 20.84. These leave this authority with the highest ratio. Ratios in excess of Scotland's 8.23 were also recorded for Fife (12.14), Strathclyde (10.37) and Tayside (8.41). The lowest ratio is to be found in Grampian (3.12) with the Borders (3.2) not far behind. However, with ratios as low as this, this may be indicative of current or near future recruitment difficulties for these areas.

It is clear from tables 1 to 4 that there are considerable variations in the fortunes of regional labour markets, located throughout Scotland. However, even within these local authority regional boundaries, variations, sometimes on a considerable scale, also occur. The issue of intra-regional variations in unemployment can be addressed by consideration of unemployment rates in travel-to-work-areas (TTWAs), the smallest area for which unemployment rates are calculated. This is an approximation to a self-contained labour market where most commuting to and from work occurs within the TTWA boundary. There are 57 TTWAs in mainland Scotland. All three Island areas are classed as TTWAs and hence disparities in unemployment situation which occur within Orkney, Shetland and the Western Isles cannot be drawn from TTWA statistics.

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 TTWAs contained in a region have unemployment rates above the Scottish average then this is an indication of a general high unemployment area; the converse also holds. The Borders is clearly

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

	No of TTWAs	No above Scottish Average+ Narrow	No above Scottish Average+ Wide	No above Regional Average+ Narrow	No above Regional Average+ Wide
Borders	5	0 (0)	0	3 (2)	3
Central	3	2 (2)	2	1 (1)	1
Dumfries & G/way	7	3 (3)	2	4 (3)	3
Fife	3	2 (2)	2	1 (1)	2
Grampian	9	1 (3)	1	8 (8)	8
Highland	8	4 (4)	3	4 (4)	4
Lothian	3	1 (1)	1	1 (1)	1
Strathclyde	12	9 (11)	7	5 (5)	5
Tayside	7	2 (2)	2	2 (2)	2
Scotland	57	24 (28)	20	29 (27)	29

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

Source: Department of Employment.

areas of low unemployment with none of its TTWAs having unemployment rates above the Scottish. Grampian and Tayside also illustrate this. Strathclyde continues to be a typical example of the former case with nine of its twelve TTWAs having unemployment rates in excess of the Scottish average - this however is an improvement on last quarter when 11 TTWAs were above Scottish unemployment figures. Fife and Central, on this measure, also emerge as areas of generally high unemployment. The information is provided for both narrow and wide based unemployment rates.

Comparing the unemployment rates in TTWAs with the regional averages is useful in identifying intra-regional areas with significantly above or below average unemployment. If the majority of a region's TTWAs have rates in excess of the regional average then this indicates the presence of a few areas, possibly even one with below average unemployment. As usual, Grampian services will to illustrate such a case. Eight of Grampian's nine TTWAs have unemployment rates in excess of the regional average. It is the low rate of Aberdeen TTWA which is pulling down the regional average. Tayside can illustrate the reverse. Two of Tayside's seven TTWAs have rates in excess of the regional norm which is being pushed up by Dundee and Arbroath.

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 mainland region as presented in Table 6. It is possible to calculate the range of unemployment rates witnessed in each region and the ratio of the highest to the lowest rate. this has been done for both types of unemployment rate.

Cumnock and Sanquhar remains the TTWA with the highest unemployment rate in Scotland with 21.0% of the workforce unable to find work - this is a modest improvement on last quarter's 21.3%. For the wider based rate the area still has the worst unemployment with a rate of 17.7%. In contrast Galashiels and Aberdeen have the lowest rates both at 3.3% on the wide definition and respectively 3.8% and 3.7% on the narrower.

The smallest range of unemployment rates on both definitions is to be found in the Borders. Only 3.7% (2.8% in the wider definition) separates the unemployment rate in Peebles and Galashiels.

Dumfries and Galloway still exhibits the biggest differential with 15.5% (13.2%) separating, the rates in Cumnock and Sanquhar and Annan.

Some information on intra-regional disparities in unemployment distribution can be obtained by considering the ratio of highest to lowest TTWA unemployment rate. Except in Dumfries and Galloway and Strathclyde, these are little change since last quarter. In Dumfries and Galloway the ratio rose from 3.3 to 3.8 whilst in Strathclyde it fell from 3.5 to 2.5.

Grampian still has the highest ratio with unemployment - in Forres 4 times higher than that in Aberdeen. Fife has the lowest ratio on the narrow base with unemployment 1.7 times higher in Kirkcaldy than in North East Fife. Central has the lowest rate with unemployment 1.6 times higher in Alloa than in Stirling. Low ratios were also recorded in Fife, Grampian, Lothian and Tayside suggesting that there are not significant disparities in unemployment within the regions.

Table 6 TTWAs with highest and lowest unemployment rates

		Unemployment Rates Narrow+		Wide	High - Low Narrow+		Wide	High / Low Narrow+		Wide
Borders	H Peebles	7.5	(7.9)	6.1	3.7	(4.1)	2.8	2.0	(1.9)	1.8
	L Galashiels	3.8	(4.6)	3.3						
Central	H Alloa	13.7	(14.5)	11.9	5.2	(5.8)	4.4	1.6	(1.7)	1.6
	L Stirling	8.5	(8.7)	7.5						
Dumfries & G/way	H Cumnock/Sanquhar	21.0	(21.3)	17.7	15.5	(14.8)	13.2	3.8	(3.3)	3.9
	L Annan	5.5	(6.5)	4.5						
Fife	H Kirkcaldy	11.2	(12.0)	10.0	4.5	(4.7)	4.4	1.7	(1.6)	1.8
	L North East Fife	6.7	(7.3)	5.6						
Grampian	H Forres	14.9	(16.8)	11.8	11.2	(12.6)	8.5	4.0	(4.0)	3.6
	L Aberdeen	3.7	(4.2)	3.3						
Highland	H Sutherland	14.2	(11.2)	11.2	6.8	(4.7)	5.2	1.8	(1.7)	1.9
	L Inverness	7.4	(7.2)	6.5						
	L Badenoch	8.0	(8.5)	6.0						
Lothian	H Bathgate	10.2	(10.7)	9.3	4.9	(4.4)	4.8	1.9	(1.7)	2.1
	L Haddington	5.3	(6.3)	4.5						
Strathclyde	H Girvan	16.8	(18.3)	12.8	10.1	(13.0)	8.5	2.5	(3.5)	2.6
	H Greenock	15.3	(14.2)	13.7						
	L Oban	6.7	(5.3)	5.2						
Tayside	H Arbroath	10.6	(13.6)	8.8	4.5	(6.6)	4.4	1.7	(1.9)	1.9
	H Dundee	10.2	(11.2)	9.3						
	L Perth	6.1	(7.0)	5.3						
	L Blairgowrie	6.3	(7.3)	4.9						

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

Source: *Department of Employment.*