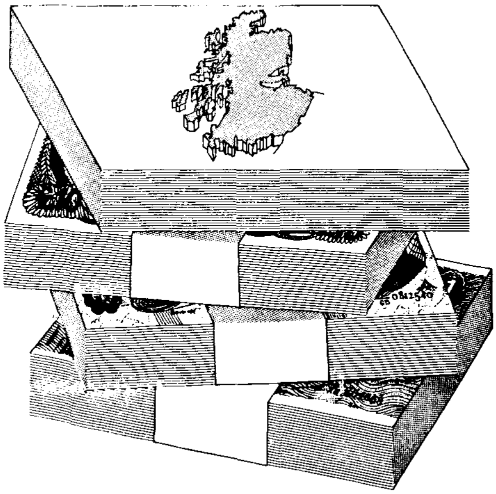
The Scottish Economy

Industrial Performance



BUSINESS SURVEY

Since October 1984 there have been two regular surveys of Scottish businesses, one carried out by the Chambers of Commerce and the other by the CBI. These have the great advantage that they provide indications of the trends in a number of economic variables several months in advance of the publication of the official statistics. Moreover, they provide a basis for making assessments about the short-term prospects for the economy. However, there is a tendency for the nature of the information obtained to be mis-interpreted by commentators. What is presented are details of the likely direction of trends; what remains uncertain from these Surveys is the precise magnitude of a given trend. Tyically the results refer to the change in a particular aggregate, say employment, "on balance". That is, the number referred to is the difference between those replying "up" and those "down". If the difference is +15%, this cannot legitimately be interprete as a 15% growth in employment. Rather it shows that 15% more firms saw employment rise than witnessed a fall. Bearing in mind the need to interpret the data correctly, the Surveys remain a useful indicator of current trends, and each provides a slightly different perspective. The smaller CBI Industrial Trends Survey focuses on manufacturing, providing an analysis of the results in terms of both sector and firm size. The **Scottish Chambers' Business Survey (SCBS)** covers manufacturing, construction, wholesaling, retailing and financial institutions and four distinct areas covered by the Aberdeen, Dundee, Edinburgh and Glasgow Chambers.

In the course of 1987 both Surveys began to indicate an upturn in confidence and activity in the Scottish economy following the reverses of 1986. These trends continue to be evident in the Surveys published in January of this year. Turning first to the **SCBS**, for the fifth successive quarter the prevailing impression conveyed was one of growing optimism in the face of buoyant demand. The recent upheavals on the world's stock markets and the consequent uncertainty about the world economy have, as yet, made little impact on Scottish business confidence. A balance of firms in all sectors reported a growth in optimism compared with three months earlier. In manufacturing a net 7% of firms expressed increased confidence with a balance of firms in all sectors, save other manufacturing, reporting increased sales and orders. Particularly encouraging is the fact that sales and orders from domestic demand increased, on balance. During most of 1987 it was the non-Scottish markets which saw most growth. However, given the possible decline in world trade, domestic demand will be required to take a larger share of output if recessionary influences are to be averted. With respect to employment, this increased among a net 8% of firms, with each of male and female employment also growing by 8%, on balance.

Following nine successive falls in business confidence, there has been a growth in construction sector optimism for the fifth quarter running. At +33% the balance of optimism is the highest recorded since the inception of the SCBS. As in other sectors, the source of this optimism appears to be the growth in demand for constuction services, with the volume of new orders on the increase, particularly from the private sector. The outlook for the first quarter of 1988 is for a further increase inorders, with the private sector again being the most buoyant source of demand. There was an increase in employment, on balance among 2% of companies. Interestingly, more than one fifth of firms cite shortages of skilled labour as being a constaint on output. Along with a capacity utilisation rate of 75%, this tends to indicate the possible emergence of supply side problems for the industry.

At a net 27%, the balance of wholesaling firms reporting increased optimism is the highest since July 1987. Sales rose among a balance of 48% of firms with more than half experiencing a growth in turnover. However, employment performance and prospects in the sector were and are poor. Total employment declined among a net 32% of firms and a further 3%, on balance, expects jobs to contract inthe first quarter of 1988. Particularly hard hit has been full-time employment, although part-time employment has also fallen, on balance. The most optimistic sector throughout the previous 13 Surveys, retailing remains extremely bullish, with a net 36% of firms being more optimistic about the business climate than in October. This reflects the continuing boom in retail sales, with a balance of 44% of firms experiencing sales growth in the final quarter of 1987 and a further net 59% anticipating a rise in the first three months of 1988. Overall, there has been an increase in employment among 37% of retailers, although only a net 1% expects employment growth in the three months to March.

The CBI Survey presents a broadly similar picture to that given by the SCBS. A balance of 29% of manufacturing firms was more optimistic in January than in October, with the degree of increased optimism being greater among larger companies. The growth in optimism is a reflection of the favourable performance over the range of idicators, including output orders, sales and exports. Overall, output in the four months to the end of December had increased among a net 26% of respondents, with a further 38%, overall, expecting output growth in the first four months of 1988. Ouput growth was reflected in the increased volume of deliveries, with domestic deliveries growing more quickly than those for export. New orders rose among a balance of 33% of companies with domestic orders, again, showing greater buoyancy, although export orders did rise among a net 23% of firms. The outlook for the first part of 1988 is of continuing orders growth, with domestic demand leading the way. Although the numbers employed declined among 2% of firms overall, a net 11% of companies expected employment growth during early 1988.

Primary

AGRICULTURE

Grants worth a total of £3 million a year are being offered to Scottish farmers from the 1st January to aid diversification projects. Grants will be applied at a flat rate of 25% of eligible expenditure on a range of activities up to a maximum investment of £35,000. The scheme envisages a wide range of alternative enterprises being developed. It lists farm produce and timber processing, including the treatment and bottling of spring water; craft manufacture; repair of farm machinery; farm shops; pick your own sites; holiday accommodation; camping; caravan sites; and sports and recreation facilities. At the same time feasibility and market research studies will qualify for a 50% grant.

Just before Christmas the Scottish Milk Marketing Board announced that it was taking over almost one third of the milk distribution business in Scotland. It has bought a 90% stake in the parent company of Scottish Farm Dairy Foods which serves 30% of Scotland's milk market and last year recorded a turnover of £60 million. In addition to supplying supermarkets, shops and dairies throughout the country Scottish Farm Dairy Foods also supplies schools, hospitals and the catering industry. The Milk Marketing Board has also purchased McGhie's Dairy business in Lochmaben which has an annual turnover of £5 million. At the end of the year, milk production in the Board's area was about 2% over quota.

The deer farming business in Scotland has been expanding. About 12,250 deer are now being farmed on 56 establishments covering 7,460 hectares. At the same time the number of wild deer has risen by 35,000 since 1979 to some 200,090. This is thought to have been due to the succession of relatively mild winters in the Highlands, and the Red Deer Commission recommends that estates cull one sixth of their deer population each year to keep the population in check.

The newly-formed Forestry Industry Committee of Great Britian, a body which unites timber-growers and processors, has just issued an optimistic report entitled "Beyond 2000". It envisages that the UK's degree of self-sufficiency in forest products should rise from 12% to 17% by the year 2000. It says that since 1984 there has been a renaissance in the British forest products industry.

By 1989 Britian will have five large, integrated pulp-and-paper mills, and seven major panel plants, most of them using the latest technology.

A report on the prospect for forestry in the Highlands, commissioned by the Highland Regional Council, was much more pessimistic. It saw no prospect of there being major developments in the region before the year 2000. The report also put a question mark over the life of the Wiggins Teape paper mill at Corpach beyond the year 1989, and said that the future was bleak for some of the area's 20 sawmills unless they diversified into value-added operations. When the Corpach paper plant was an integrated pulp paper mill in the 1960's it employed 920 workers, but since then the work force has declined by 200.

According to the Forestry Commission's annual report which was issued at the end of January, the commission is achieving a 3.1% rate of return on its forest operations against a target of 3%. On its commercial recreation operations, such as forest holidays and campsites, it claims to be earning a return of 7.9% against a target of 5%.

FISHING

The latest figures published by the Department of Agriculture and Fisheries for Scotland show that the value of fish ladings in Scotland by UK vessels in the first ten months of 1987 was £225 million. This represents a 15.5% increase over the corresponding period of 1986 and is the combination of a slight rise in volume of 0.5%, to around 450,000 tonnes and average price increases of 15% to £498 per tonne. There is however, some variation between the different catagories of species as can be seen in Table 1.

The most dominant species, demersal, accounted for just over 50% of total volumes and 70% of total values. There was a significant fall in the volume of landings over the previous year, of 8%, but this was more than adequately compensated for by a 26% increase in average prices to increase total value by almost 16%. A large increase in the volume of landings of pelagic species of around 12% and a less significant improvement in prices of 5.5% meant that the total value of landings in this category recorded and increase of 18%. Both the volume and average price of shellfish landings rose by 7% and 5% respectively, and so total value also increased, up 13%.

Table 2 gives, some details of the most important individual species in each category and these figures explain a major proportion of the trends reported above. Large increases in the volume of cod and whiting landings, coupled with average price rises of 0.6% and 12% respectively, meant that there was quite substantial increases in the total value of landings of each species. On the other hand, the

Table 1 Fish landings by UK vessels at Scottish ports: January-October 1987

	Weight (tonnes)	Value (£000)	Average Price per tonne (£)
Demersal	227,737 (- 8.3)*	158,282 (+15.9)	695 (+26.3)
Pelagic	192,140 (+12.1)	21,829 (+17.8)	114 (+ 5.5)
Shellfish	31,298 (+ 7.3)	44,588 (+13.1)	1,425 (+ 5.4)
Total	**451,175 (+ 0.5)**	**224,699 (+15.5)**	**498 (+14.9)**

* percentage change over the corresponding figures for 1986

Source: Department of Agriculture and Fisheries for Scotland

Table 2 Landings by UK vessels at Scottish ports of selected species: January-October 1987

	Weight (tonnes)	Value (£'000)	Average price per tonne (£)
Cod	48,224 (+26.6)	43,233 (+27.4)	896 (+ 0.6)
Haddock	80,113 (-25.3)	60,607 (- 1.6)	757 (+31.8)
Whiting	32,858 (+30.7)	16,927 (+47.1)	515 (+12.5)
Herring	90,632 (+ 0.5)	19,978 (+ 7.8)	121 (+ 7.1)
Mackeral	96,775 (+16.1)	10,642 (+30.2)	110 (+ 3.3)
Scallops	4,035 (+20.5)	6,054 (+37.4)	1,500 (+14.1)
Norway lobsters	13,464 (+13.2)	26,674 (+ 2.7)	1,981 (+18.2)

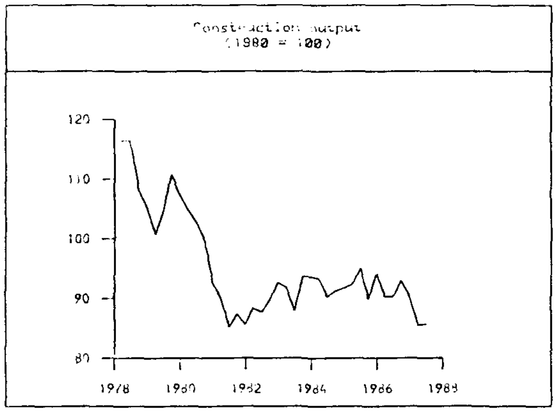
Source: Department of Agriculture and Fisheries for Scotland figures for the most dominant species in this category, haddock, show large falls in volume which were accompanied by large increases in average price, but the latter was insufficient to compensate fully and so overall, total value fell marginally. Amongst the most important of the pelagic species, herring values rose around 8%, mostly due to increases in average prices, whilst the rise in the value of mackeral landings can be explained by the large increase in volume. The most important shellfish species in value terms, Norway lobsters suffered a fall in volume of over 13% but this was more than matched by increases in average prices and so value was up marginally. Finally, increases in the volume and average price of scallops combined to produce a large increase in total value.

In December, the EEC Fisheries Council announced quotas for 1988 for total allowable catches. This included the following for West Coast fish: cod down 1870 tonnes to 9700 tonnes, haddock up 2420 tonnes to 28,210 tonnes, saithe up 1270 tonnes to 6190 tonnes with plaice, sole, herring and mackeral unchanged. For the North Sea, the total allowable catch for cod is down 3500 tonnes whilst haddock is up almost 28000 tonnes. There is also a fall in the availability of saithe and whiting (down by 1150 and 7120 tonnes respectively). At one point in the negotiaions, the likelihood of an agreement had been threatened because of UK demands for permission to catch Western mackeral stock while it is migrating through the North Sea. To the dismay of Scottish Fisheries representatives the UK team was forced to back down. However, this news was ameliorated to an extent by the announcement in January that Scottish fishermen had been given the go ahead to catch up to 180000 tonnes of mackeral in south-west English grounds over the next 3 months.

Again in December came the announcement of details of a package of major EEC support. Around £3 million has been allocated to Scotland for vessel constuction, modernisation and aquaculture projects. This respresents almost 60% of the funds allocated to the UK as a whole as part of a package of support approved by the Council of Ministers in the December of 1986.

Construction

The government's index of construction figures for the second quarter of 1987 suggest that the industry in Scotland continued to struggle in the first half of 1987. Standing at 85.7 (1980=100), the index for the third quarter is 5% lower than the corresponding period in 1986, and is the lowest single quarter's figures recorded since 1982 when the industry was in deep recession. The index for the UK, however, remains buoyant at 107.0. While this is marginally down on the figure for the first quarter, it is nevertheless 5% higher then the corresponding 1986 level.



The index of construction does not paint the whole picture, however. There is of course a time lag between the receipt of new orders and the impact of these orders on the overall level of activity in the industry, and so information on new orders received by contractors is a valuable source of data. Fortunately these figures from the Department of the Environment for the third quarter of 1987 are much more optimistic. As with the previous quarter, the value of new orders in Scotland is markedly up compared with 1986. Total new orders stood at £466.7m, fully 73% higher than the 1986 third quarter value and the fourth successive quarter of growth in the nominal value of orders. Interestingly public sector orders exhibited particularly strong growth, almost double the level of the third quarter of 1986. This includes public sector housing, an area of decline in recent years, which by September had already exceeded the total value of new orders obtained in the whole of 1986. Most spectacular of all, however, is a surge in orders for roads and motorways. At £134m third-quarter orders were greater than the total value of new orders placed in this category in 1986, a welcome boost not only for the construction industry but for Scotland's creaking infrastructure.

More modest, but nevertheless substatial growth in new orders was realised in the private sector which exhibited a 54% rise in the nominal value of new orders over 1986. In this sector commercial property showed a particuarly strong increase.

It will indeed be welcome news if the figures for new orders indicate that Scotland may at last be sharing in the construction boom experienced in parts of England. Evidence of the recent strength of UK construction activity was given in December by Euro-Construct, the Eurpean building research group, which estimated that the UK had the fastest growing construction sector in Europe in 1987, and will repeat this performance in 1988. The UK figures, compiled by NEDO, estimate that construction output rose by 7.5% in 1987 and will rise by a further 3% this year, far ahead of other European countries including France and West Germany (where construction output is falling). However, the NEDO figures also sound a warning note for the future. While industrial and commercial construction is forecast to show modest growth until 1989, the situation is very different in housebuilding. NEDO expects private housebuilding to decline by 3.5% in 1988 and 5.5.% in 1989, with public sector housebuilding declinng by 16.5% and 12% in these years. It should also be pointed out that these forecasts are based on the assumption that the stock market collapse and uncertainty over the US economy will not spark off a world recession.

Even if they are accurate, the impact of NEDO's UK forecasts on the industry in Scotland is uncertain. The private housebuilding boom has been principally a south-east phenomenon and has largely passed Scotland by. Any direct effect of the stock market crash on construction is liable to be restricted to those areas inhabited by young high-earners whose income and wealth has been directly affected by the slide in the value of shares; this is unlikely to trouble Scotland. Any longer term effects in the shape of worldwide economic recession show no signs yet of materialising, and even if a recession did come its effects are unlikely to be felt before 1989.

Certainly the industry in Scotland is optimistic about its own short-terms prospects as illustrated by the results of the January **Scottish Chambers' Business Survey.** The balance of firms expressing increased optimism about the general business climate is 33%, the highest ever recorded in the survey and the fifth successive quarter in which the balance of optimistic respondents has grown. This stems from a general increase in the level of new orders in the last three months of 1987, especially from the private sector, a trend expected to continue into the early part of 1988. A small balance of responding firms indicated that employment has risen in the last quarter of 1987, only the second time that a positive balance has been recorded in the survey. Once again this is expected to continue into the early part of 1988, although it should be pointed out that in the past respondents have shown a tendency to be systematically over-confident about future employment prospects. There remains some evidence of a skill shortage in the construction industry, a point raised in previous **Commentaries.** Over one-fifth of responding firms in the January survey cited a shortage of skilled labour as a major capacity constraint.

Energy

OIL AND GAS

The Royal Bank/Radio Scotland oil index for December 1987 was 152.2 (1980=100). This represents an average daily production volume of 2.51 mb and an average daily production value of £24 million. The December index was 0.8% lower than in November but 6.6% higher than in December 1986. Overall, December production fell in 13 fields and rose in 11.

The Royal Bank estimate that, for 1987 as a whole, average daily oil production in the North Sea was 2.48 mb, valued at £28m per day. The equivalent figures for 1986 were 2.56 mbpd and £25.5m. The lower 1987 production volume reflects the fact that the North Sea is now in secular decline as an oil-producing province, while the higher production value is attributable to a recovery in dollar oil prices (partly offset by a weaker dollar/sterling exchange rate).

A December meeting of OPEC in Vienna revealed deep divisions among members of the cartel, heightened by the Gulf war, concerning both pricing and production policies. OPEC's failure to reach agreement had an immediate adverse effect on oil prices, with the spot price of Brent crude falling to £15.92 pb in January, for example. However, there are some early indications that OPEC is responding to the downward pressure on oil prices by cutting production: OPEC output in January was estimated at 16.0-16.5 mbpd compared with 18.3 mpbd in December. Furthermore, a recent International Energy Agency (IEA) report suggests that the global supply/demand inbalance in oil is less than previously thought, which should make it easier for OPEC to match its production to demand. IEA estimate demand for OPEC crude could be 20.2 mbpd In the first quarter and 18.1 mbpd in the third quarter of 1988. These forecasts can be compared with OPEC's `target` production of about 17.6 mbpd (including 2.5 mbpd from Iraq).

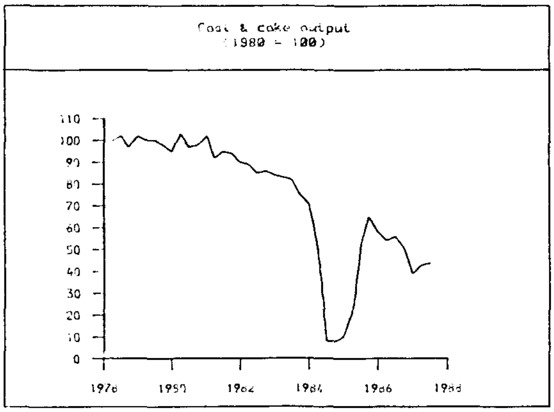
The substantial impact of the oil price colapse of 1986 on offshore employment in the Northern North Sea is revealed in a recent bulletin produced by the Industry Department for Scotland (IDS). Based on survey returns, IDS estimate that employment offshore fell by approximately 5,900 (24%) between 1985 and 1986. There were employment reductions in virtually all offshore activities, but the largest single job loss (circa 3,000) was on offshore drilling rigs. This, in turn, was in a large part attributable to a decline in the number of mobile drilling rigs operating in Northern waters from 35 in 1985 to 13 in 1986. Of course, as has been noted in previous Commentaries, firmer oil prices last year have led to a revival of exploration and development activity in the North Sea; for example, Amoco's new £144 million development for the Arbroath field announced in December was the third major development programe approved in the final quarter of last year.

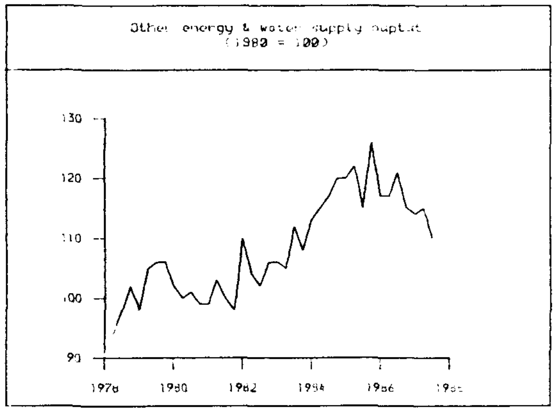
A major oil-related topic of interest in recent months has been BP's proposed take-over of Britoil, which now seems certain to be successful. This would give a significant boost to BP's `in-house` oil production and reserves in the North Sea at a time when some of its existing fields (notably Forties) are in decline. There have been arguments over whether the proposed deal is commercially sound (with some analysts saying BP is paying too much and others that it is paying too little). However, the greatest areas of controversy have revolved around the following questions: (i) should Britain's largest independent oil exploration and development company be allowed to be taken over by anyone? (ii) will significant job losses arise as a result of the take-over? (iii) what regional (specifically Scottish) economic disadvantages will there be from the loss of another major corporate headquarters?

BP indicated that there will be no overall loss of employment as a result of the take-over and they also propose to move their exploration and development divisional headquarters to Scotland. However, at the time of writing the many issues arising from this take-over are far from finally resolved; in particular, it is not clear what use, if any, the government can or will make of its `golden share` in Britoil.

COAL AND OTHER ENERGY

The Index of Production of the coal and coke industry rose by one point to stand at 44 (1980=100) during the second quarter of 1987. This compares with levels of 56 in the corresponding quarter of 1986 and 78 in 1983, the last full quarter of production prior to the strike. Recent developments guarantee that the Index will fall even further with the closure of Seafield Colliery now being a matter of historical record and othe closures a distinct possibility. The last quarter has highlighted quite starkly a number of factors which place the future of deep-mined coal in Scotland in jeopardy. To an extent the picture is confused by the interdependence of several of these factors, but it nevertheless remains the case that some of these factors, in isolation, present potentially fatal threats to Scottish coal. First is





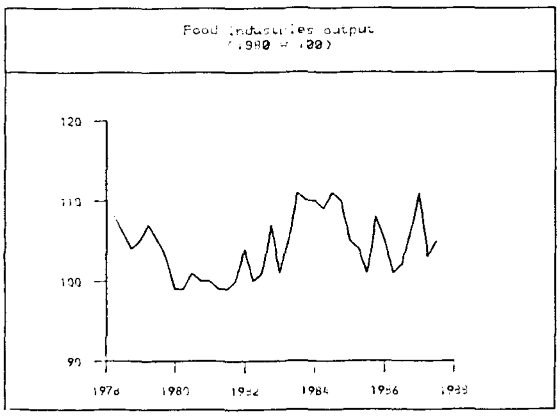
British Coal's drive towards privatisation which inevitably entails the pursuit of a level of profitability which will be attractive to investors. Since the strike productivity has risen by 45%, operating costs have fallen by 23% and the colliery workforce has been reduced by 83,500 to 137,800 with more redundancies and closures to come. It is statistics like these which enabled the company to secure an operating profit of £104 million in the 6 months ending in September of last year, although interest and re-structuring costs transformed this into a loss of £136 million. In the drive for profitability it is the "efficient" low cost "super pits" of Yorkshire, Midlands and South Wales which are likely to continue to attract investment rather than the more difficult collieries of the Scottish area. Subsequently, the Scottish area will become an increasingly unattractive proposition for British Coal for further investment. Secondly, British Coal's major customer, the electricity supply industry, is now clearly withdrawing from is previous policy of agreeing minimum purchases of coal from British Coal. The decision of the South of Scotland Electricity Board to seek price tenders for the supplies is seen as a direct threat to the Scottish coal industry, and indeed it is. However, a similar threat existed prior to the SSEB decision. Since the SSEB contracts to buy from British Coal it is British Coal which decides the sources from which the order should be met, and there is no guarantee that British Coal will decide to source the Scottish electricity industry's needs from the Scottish area. It is quite concievable that coal will be shipped from the lower cost pits in the south. The third and related factor is the imminent privatisation of the electicity industry. Its pursuit of profit for investors will inevitably drive it to minimise costs and hence to seek the cheapest possible supplies of coal. Already electricity industry sources have made clear their aim of importing a substantial proportion of their coal tonnage at cheaper world prices. (The CEGB, for example, may import up to 30 million tonnes per annum, compared with the 78 tonnes it purchased from British Coal in 1987). Were there to be a substantial contraction in coal demand in Britian the Scottish area would be highly exposed. The foregoing is a description of the threats facing the industry rather than an advocacy of the running-down of Scottish Coal. In opposition to the evident trends it can be argued that there are strategic reasons for the UK maintaining at least its current level of coal producing capacity even if this prevents privatisation. Only recently British Coal's commercial director has argued that the world coal price is artificially and unsustainably low. If this is true - and it does appear that some producers are flooding the market in order to force capapcity reductions in other countries - then many of British Coal's current closures and the electricity industry's importing intentions may be misplaced.

Turning briefly to the electricity industry's privatisation, the plans for the Scottish Boards should be known by the next Commentary. Unlike the complex position south of the border, the only major issue to be decided by the Scottish Ofice is whether to privatise SSEB and NSHEB together as one company or separately, NSHEB preferring the latter option since it believes it can have a viable existence as an independent enterprise.

Manufacturing

FOOD, DRINK AND TOBACCO

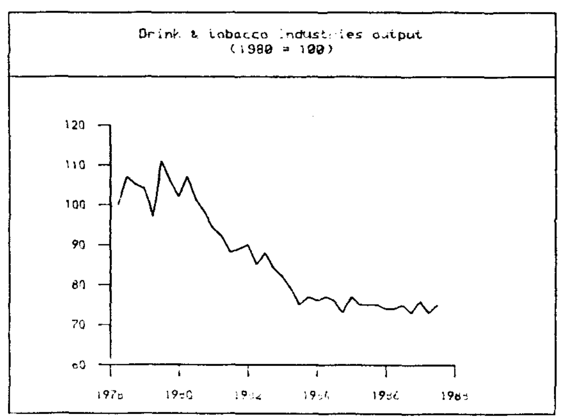
The index of production for the food industry in the second quarter of 1987 stood at 105 (1980=100), 3% higher than the level for the correspnding period in 1986. There is still little sign of a sustained recovery in the industry, and the Scottish index lags consistently slightly behind its UK counterpart. The index for drink and tobacco remains stubbornly depressed at 75 for the third quarter. This is unchanged from the third quarter of 1986, and now lags some 36% below the corresponding UK index.



The optimistic tone of the **Scottish Chambers' Business Survey** reasserted itself in January after a rather downbeat October survey. A balance of 50% of firms experienced increased sales over the last three months, with export sales being particularly strong as is usually the case in this sector. The pattern of increased sales and new orders is expected to continue into the first quarter of 1988 by a small balance of responding firms. In addition, a balance of 10% of respnding firms increased employment in the last quarter of 1987, and employment prospects look favourable for the next three months. One rather interesting finding from the January survey is that fully 28% of respondents listed a lack of raw material as the single most important factor limiting output in the next quarter. Not suprisingly, lack of orders is the most freqently mentioned factor, but a lack of raw materials would represent an unwelcome capacity constraint as firms attempt to expand.

Over the last three months there have been two small but significant developments in fish processing. The first of these is the continuing chequered history of the Ronas Voe factory in Shetland. In October the factory closed for the second time in a year with the loss of 32 jobs after new owners the Hughes Food Group decided that scarcity of fish and high prices made the plant unviable. In December, however, the Shetland Fish Producers Organisation bought a 70% stake in the factory with a promise to resume production early this year. Whether the hard-pressed Shetland fish-processing industry can stand an increase in capacity remains to be seen. The second development is the move last month by Hebridean Seafare into HIDB-provided premises in the Invergordon Enterprise Zone. The firm, which produces a range of high-qualty prepared salmon and seafood dishes, expects to increase employment from 28 to 40.

Leading soft drink manufacturer A G Barr disclosed sound figures for the year to November 1987. Despite another poor summer and investment of £8m in its plants at Atherton and Glasgow, sales rose by 15.8% to £45.39 million and pre-tax profits rose by 19% to £5.32 million. Even a firm of Barr's size could expect to be squeezed by the creation a year ago of giant groups Schweppes Coca Cola and Britvic Corona. The company has decided that orgainic growth is simply not fast enough to compete with such huge groups, and in December acquired Mandora St. Clements from Mansfield Brewery for £21.5 million. The addition of Mandora will virtually double Barr's turnover, and adds another well known name, St. Clements, to Irn-Bru and Tizer.

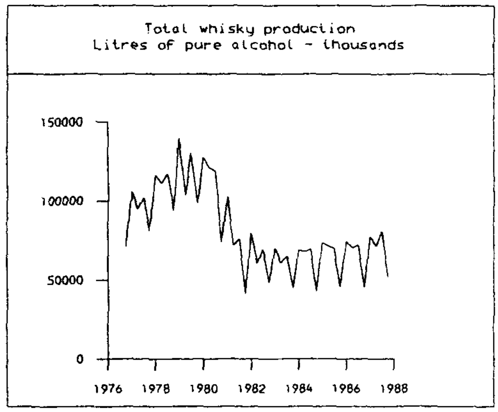


Beer consumption in Scotland has been falling steadily since 1980, and one leading brewer is forecasting a further decline in volume of 1% in 1988 unless there is an exceptional summer. Despite these problems, two of Scotland's leading brewers recently released healthy six-month figures. Scottish & Newcastle's pre-tax profits for the six months to November rose 28% to over £53 million, despite a small decline in sales of beer. Improved profit margins and better first half performance from Scottish & Newcastle's hotel chain help to explain the healthy profit figures, which do not include any contribution from recently-acquired brewers Matthew Brown. Belhaven's profits for the six months to September rose by even more, up 55% to £4.5 million. Beer accounted for only 15% of profits, on sales up from £5.2 million to £5.5 million. The vast majority of pre-tax profits came from Garfunkels, the restaurant chain purchased last summer for £100 million. In addition to further expansion of Belhaven's new leisure-related interests, Mr Raymond Miquel has ambitious plans for the traditional beer side of the business. Production at the Dunbar brewery is planned to treble, and the company plans to move further into the tied house market. It is pssible that Belhaven may seek to expand into England by taking over a small regional brewer.

As the last **Commentary** went to press Allied-Lyons the food and drink group, announced that it was paying £572 million to buy the remaining 49% of Hiram Walker which is does not already own. The Canadian drinks business owns several important brands of spirits, including Ballantine's whisky.

WHISKY

The latest figures for production and exports of whisky indicate that the industry is continuing its slow recovery. Total production in the third quarter of 1987 was 51.3 million litres of pure alcohol (LPA), 14.6% up on production in the corresponding period of 1986. This is the highest third quarter level of production since 1980. Of even more interest, however, is the encouraging news that whisky exports in 1987 rose by 1.7% to 240.17 million LPA, the highest level of annual exports for five years. Even more encouragingly, bottled-in-Scotland exports did particularly well in 1987. Bottled blends, by far the most important export sector, rose 4.2% to 161.0 million LPA; bottled malts, while still of minor importance in absolute terms, continued to grow spectacularly, up 11.5% to 7.1 million LPA.

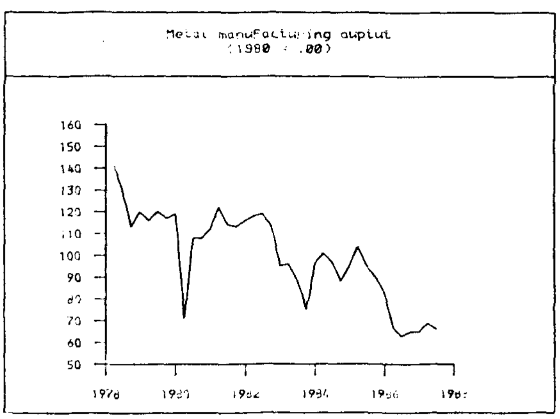


Prospects for 1988 are largely dependent on developments in the international economy, especially whether any substantial recession should result from the stock market collapse and, more importantly, the United States measures taken to cure the twin defecits in the federal budget and the current account of the balance of payments. The United States is itself an important market for Scotch Whisky, but its influence on the general world economy is of even greater importance for an export-intensive industry. So far there is no evidence of a major recession emanating from America, which suggests that further modest growth may be a reasonable prospect for this year.

At the moment the industry is less concerned with the international economic outlook than with the real prospect of removing the discriminatory tax regime in Japan. In November the full council of GATT upheld the decsion of a three man panel that Japan's alcohol taxation system discriminated against foreign wines, brandies an whiskies, and was contrary to the provision of Article 3 of the General Agreement on Tariffs and Trade. The Japanese government in now coming under intense international pressure to end the discrimination against imported wines and liquours, but there is some doubt about how far and how quickly they are prepared to proceed in the face of opposition from the politically powerful domestic drinks industry. So far the Japanese have been vague on what it is that they plan to do and when they plan to do it, although any changes are not thought likely to be introduced before 1989. More worrying is the suggestion that liquor tax reform may be linked to more wide-ranging changes in the Japanese domestic taxation system, a move which could further slow down the whole process. The European community has already made it clear that such a move would be regarded as unacceptable, and could lead to (unspecified) retaliation against Japan. Details of Japan's planned reforms are now expected to be announced some time before the economic summit to be held in Toronto in June.

Just over a year ago distilling ceased at the Inver House distillery in Airdrie, and some doubt was expressed over the intentions of the US owners Publicker Industries. In early February the Inver House business was the subject of an £8 million buy-out by the Scottish management, thereby protecting the jobs of 30 remaining employees. While gin, vodka and cream liqueur production will continue at Airdrie, there are apparently no plans to recommence whisky distilling in the immediate future. Nevertheless, the various Inver House brands will still be blended, bottles and exported throughout the world.

METAL INDUSTRIES



Last quarter brought a wholy unexpected announcement from Mr Kenneth Clark that BSC was to be privatised, as one unit, with early 1989 as the favourable time horizon for the exercise. The timescale surprised many commentators who had freely assumed that late 1989, early 1990 were the earliest feasible dates. It appears that the government came under considerable pressure from within the Corporation to bring forward the flotation. In November 1987, Trade Secretary Lord Young and his ministerial colleagues took the intitial decision to privatise BSC as one business and not in two or more parts, thus rejecting the overtures of influential elements in the Scottish Conservative Party. This was not unexpected and reflected a broad consensus of opinion that considerable diseconomies would emerge if any attempt was made to split up the bulk steel making business. At this time however the indications were that the Government favoured a longer timescale than that ultimately chosen.

The increasing extent to which government spokesmen have adopted "bullish" postures over the highly cyclical steel industry is remarkable. At the General Election there was little evidence of this urgent agenda and the denationalisation of Steel did not feature in the Conservative manifesto. Indeed, many senior figures explicitly poured cold water on any suggestion of an early flotation. As recently as early November, government sources were indicating 2 to 2.5 years seemed feasible, yet less than one month later, on 3rd December 1987, Mr Clark outlined the porposals indicating a timetable of much shorter duration. It is difficult to argue that market conditions hav altered significantly over the period or that there is any indication the BSC's prospects had improved dramatically. During this time, the favourable exchange rate effects emphasised in previous **Commentaries**, combined with the benefits of greater efficiency following years of restructuring has lead to a solid export based gowth in earnings. If anything, worries about the dollar and the difficulty of pegging the pound against the Deutchmark at favourable levels have cast a shadow over the UK steel industry. In short as we have argued repeatedly, the rennaisance of BSC is based heavily upon volatile currency prices which were subject to imprecise control by the World Central Banks and whose future configuration is highly uncertain. Thus the extent to which BSC's recovery and consolidation as a viable independent economic unit can be sustained in the medium term is difficult to assess.

In addition, the decision was made public before iportant meetings to decide the future market arrangements for certain heavy steel products within the European Community. As indicated in previous Commentaries, the UK has been the leading and often sole advocate of wholesale liberalisation of these markets. It is our view that the reatively good showing of BSC compared to its international rivals prompted the government to advocate the view in the way they did for obvious opportunistic motives. In a free market, a modernised, well managed BSC facing favourable trade conditions would survive at the expense of less efficient continental rivals. There is a laudable coherance about this position. However, when the announcement was made the competitive regime was, as it rmains, subject to the outcome of discussions over future capacity reductions. At present the odds seem heavily in favour of a continuance of the product quotas, which to a certain extent sustain BSC's inefficient continental rivals by quarentining their market share whilst they re-structure their businesses. This places an unwelcome restraint on BSC's activities in critical export markets in both the short and medium term. Privatisation makes more sense in liberalised product markets and although BSC can live comfortably with quotas they will impinge on the Corporation's ability to expand and consolidate and thus make the business more vulnerable to downturn owing to a less diversified customer base. In addition, the effect of indirect and hidden subsidies caused by different national presumptions of the time scope and extent of industrial policy, whilst dwarfed at present by exchange rate advantage, distort the cost structures of competing firms and do not favour BSC. In other times these may again become significant to BSC's competitive performance against more favoured continental rival. There is little that the national governments of European Community seem prepared to do to remove this inherent disadvantage presented to the UK steel industry.

Therefore, it is far from clear that this is a good time to sell off a bulk steelmaker. However, it would be intended that given the uncertainties outlined above that no time would seem particularly good and that the best course is one of striking whilst the iron is hot. It can be argued that several factors combined to set aside any argument that a more cautious approach to denationalisation deserved consideration. Firstly, BSC's, profits or the first half of 1987/88 were better than most forecasts. These profits reflect past and not expected operating conditions but do tend to be taken as a broad indication of continued as well as continuing well being. This is a highly suspect approach given the vagaries of BSC's trading environment. These extremely good results promted several City analysts to advocate early sale on the bais that the turmoil in the world financial systems would not materially affect either UK growth or the UK's trading position. Following the unfortunate BP flotation, calls from the City for further issues must have appeared too good to be true in Whitehall where there were well canvassed fears over whether the impetus of the privatisation programme could be sustained in the wake of Black Monday. The bullish approach towards BSC can thus be argued to be part of a wider exercise of signalling the maintenance of the privatisation policy despite recent setbacks and the continuation of a regular source of income for City institutions.

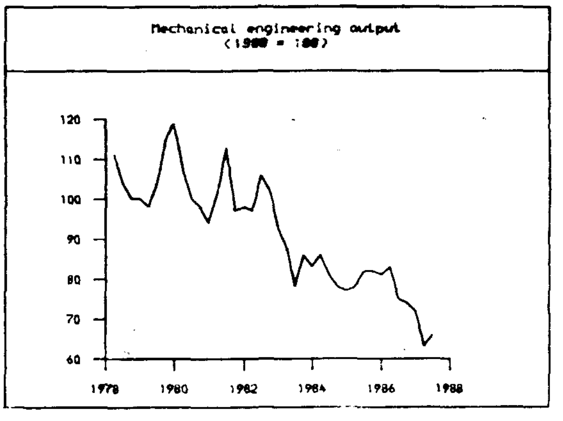
Second, BSC executives, notably Sir Robert Scholey are impatient of what they regard as "government interference" in the strategic planning of the industry. There is also a suspicion that Sir Robert is conscious that the future development of the business will require measures not currently permitted of a UK nationalised industry. There is also a clear need to internationalise the operation through continued acquisition of distributors, re-rollers and possibly producers, especially in European and North American markets. It is increasingly evident that, given the cyclical nature of steel demand, diversification into non steel activities may be required to finance the ongoing and heavy investment requirements of the steel operation. Given that BSC, like all EEC steel producers is forbidden to receive subsidy, profitable horizontal, vertical and conglomerate aquisition would offer a sensible approach to the problem of maintaining steady earnings, in sufficient volume, in order to sustain the steelmaking capacity and provide for its continuous modernisation. It is to be hoped that BSC fares better than the US steel giants who pursued similar strategies in the early 1980's and found the going far from easy. However, such arguments presented an increasingly successful and confident BSC management appear to have been persuasive within the DTI which is where it matters. Steel is regarded as one of several competing materials with no great national strategic significance and as such should be subject to as much or as little regulation as other major industries. This effectively ensured that Sir Robert received a sympathetic hearing from Trade and Industry Ministers when pressing his claims for early denationalisation.

Third, the Corporation was astute enough to offer "guarantees" over production at the Ravenscraig integrated plant in Motherwell and its second largest customer the nearbly Dalzell Plate Mill. It was only following the announcement that, **subject to market conditions**, BSC would require the stripmaking capacity for at least a further 2 years and the steelmaking, casting and plate rolling operation for 7 yars. Following, the announcement of the proposed flotation a series of government spokesmen chose to dwell on the outcome of these negotiations and their role in the deal which subsequently emerged. When one analyses what is being advanced it is clear that the outcome is one which does indeed requires considerable marketing and packaging. Interpreting the much quoted phrase "subject to market conditions" requires some care. It appears that otherwise serious government ministers rest content on a promise from BSC to sustain the Scottish steel industry if the business as a whole is making commercial rates of return. This logic compels one to inquire why government spokesmen don't stand up every day in the House of Commons and guarantee everyones job on that basis. Stripped of pseudo-economic jargon, the main element of the bargain states that, if you can sell your output at acceptable levels of profit then your job will be safe. This is little different from the situation facing most workers and enterprises in the traded goods sector. These interpretations were not lost on opposition spokesmen. An addendum suggests that in the event that BSC wishes to close the Scottish 'heavy end' it will be offered first to the market as a going concern. Mr Rifkind, the Scottish Secretary referred to this as " quite unique undertaking" which in many ways it certainly is. In theory, this ties a private concern to a specified course of action. In practice it is dificult to see who would purchase the steelmaking capacity given the well publicised requirment for expensive investment in coke making facilities in the early 1990's. If the commercial environment is one in which BSC cannot load 5 plants profitably, then it is possible that other businesses may see profitable outlets for Ravenscraig production. However, the new owners would require considerable cash flow from other sources and would need to undertake major investment at a time of poor steel demand. With the best will in the world, this seems an incredibly weak reed to lean on.

In actual fact, the announcement of these guarantees benefits BSC more directly than the government because they are not really guarantees but signals to the financial institutions of the room to manoeuvre provided by the current location of plant within the Corporation. On the same day that Mr Rifkind suggested that these guarantees were "superb news for Scotland", Sir Robert Scholey was quoted in the Financial Times as stating that "the trend must be to reduce overheads. This means to review the role of the sites". He added that "Steel is going to be under pressure. If life is going to get tougher the freedom to deal with problems which arise is invaluable". He then set out how, in such circumstances, privatisation would permit courses of action which "are not always politically acceptable". Two things must be stressed. Firstly, BSC will continue to produce at 5 sites as long as it is sufficiently profitable to do so. Closure would have to be demonstrated to be in the shareholders interests. Secondly, the ability to eliminate the perceived marginal plant at Ravenscraig is circumscribed by the inability to produce acceptable substitute products in suffcient volume at the remaining facilities. Thus the Ravenscraig Stripmill is required until the Llanwern concast machines are operationsal in 1989. The heavy end it needed to supply Dalzell until investment in a single modern platemill is undertaken in the early 1990's, and to produce high quality slabs not universally available at other integrated sites. Given expected returns and investment programmes, a reduction to 4 or fewer sites can only can only take place over a relatively long time period. The 7 year guarantee on steel and platemaking sets out timescales of locational change and signals this constraint to potential future owners. Naturally, in exceptionally good future scenarios further investment and continued operation can be justified although no-one in the Corporation believes in this eventuality. If the trading environment remains as favourable as at present then after 7 years the Corporation would be able, through its investment programme, to nationalise at fewer locations without serious curtailment of product range. If market conditions deteriorate then the private sector company has the facility to make locational savings as part of a more intense and dramatic upheaval. Thus the rules of the game post privatisation are clearly set out and valuation can proceed on this basis. However, the Motherwell workforce have been guaranteed little over and above what would happen in any event.

Given this extremely pessimistic appraisal, it is relevant to enquire whether the Scottish steel industry is finished. It would appear that unless the new single plate mill is sited in Scotland there is little hope that bulk steelmaking will continue after the 1990's. The Scottish lobby should unite behind any moves to secure such investment although no offer will be easily extracted. The stripmill and its 70 workers appear near to the end of the road. BSC has already provided an unsubstantiated estimate that the closure of the stripmill at Ravenscraig would save the Corporation £15 million. It is not clear if or how social costs are treated in this calculation but one would expect that the bulk of the alleged savings originate from the removal of fixed costs at Motherwell and greater throughput at the 2 Stripmills in South Wales as well as at the Lackenby hot coil mill at Redcar. Given that BSC Shotton is Ravenscraig's major customer and is equidistant from the main strip producing sector there will be less saved in transportation costs than one might think. An early closure of this plant is possible for these reasons and also possibly as part of a UK input into EEC capacity reductions. This would leave certain government spokesmen who championed the Shotton link in extremely exposed positions. However, any political embarassment is of little consequence compared to the damage inflicted on the Motherwell economy and the personal costs borne by 700 redundant workers many of whom will find it difficult to secure employment, let alone employment at the wage levels offered by BSC. It is worrying that the bulk of the locational savings emanate from closing steelmaking and that these will remain to tempt the private shareholders. Thus when pricing BSC, the markets may discount the closure of Ravenscraig's strip mill. The question of whether any savings will materialise will be fiercely argued over but the alleged benefit of £15 million is not as significant as the fact that BSC have calculated a total and admitted it to the public domain. BSC have costed the exercise and are asking those willing to listen that they will close the Ravenscraig stripmill as soon as it suits them. Unless the strip mill comes to Scotland, worse will follow in the early 1990's. Superb news for Scotland indeed!

MECHANICAL ENGINEERING



Scottish mechanical engineering output rose during the second quarter of 1987, the first increase for over a year. According to provisional figures published by the Scottish Office. The index now stands at 66 (1980=100) an increase of three points over the previous quarter, although some nine points below the second quarter of 1986. At the same time the UK index has risen slightly to 90, although this, too, represents a fall since the corresponding period of 1986. The rise in the Scottish index follows a period of sustained and rapid output contraction resulting from major plant closures and the downturn in oil-elated activity from early 1986 onwards. This "shake-out" now seems to be over and many of the firms which survived are well positioned to expand their activities and it would not be surpising were the output figures for the remainder of 1987 to show further growth. In part this belief if founded on the reponses to the last three **Scottish Chambers' Business Surveys,** the most recent of which in January again showed an increase in the balance of optimism among mechanical engineering firms (See Table 1). The continuing buoyancy among the remaining firms in the industry stems from the growth in demand both at home and abroad and the expectation that this will persist during the first quarter of 1988.

Table 1 Scottish Chambers' Business Survey Mechanical Engineering, January 1988

	% balance*
Change in optimism	+ 16%
Change in orders	+ 47%
Change in sales	+ 57%
Change in employment	+ 38%

* The balance figure is calculated by subtracting
the "down" reponses from the "up" responses.

The current, hopeful outlook for the sector is bolstered by the fact that, for once, there are no major closures or redundancies to report, although the prospects for a couple of major firms remain uncertain. The Renfrew based power division of the recently merged FKI Babcock combine is one of the elements of the business which may be disposed of by the company as part of the restructuring process. As has been mentioned in previous **Commentaries,** FKI believes that large-scale contracting work offers lower margins and ties-up capital for lengthy periods compared wth larger volume manufacturing. Thus, the Renfrew and Dumbarton plants would be prime targets for a sale to other, interested parties. In addition the GEC whose wealth of cash and interests in the electricity generating industry make it a possible buyer, Westinghouse of the USA might also be interested in Babcock Power. The latter developed the Pressurised Water Reactor (PWR) technology which has been approved for the next generation of nuclear power stations south of the border and for which Babcock is a major sub-contactor.

Babcock has secured a major portion of a contract for China won by GEC Turbine Generators for two 350 megawatt power units. The boilers for the coal fired power station will be supplied from Renfrew. The contraction of the labour force in November of last year to a level of 1375 was based on the assumption that this contract would be obtained. Thus, the present level of operations seems secure for the short-term, with the hope that additional work will be forthcoming from the CEGB for either or both of the Fawley and West Burton coal-fired stations or the new programme of PWR's.

The second firm facing an uncertain future, although in a different and more depressing context, is Highland Fabircators, the Nigg-based offshore construction yard. Following its failure to win work from British Gas for the latest drilling platforms for the Morecambe Bay gas field (see below) and the Amerada Hess contract for topside conversion work, Hi Fab has reduced the hourly paid workforce to 100. With only one significant order on the immediate horizon - two jackets and two decks for the Ravenspurn development to be placed by Hamilton Brothers - and competition for this expected to be fierce, the yard's prospects are poor. Elsewhere in the oil-related sector, McDermott of Ardesier was a successful partner in the Morecambe Bay Consultants consortium which won the £60 million order from British Gas for Two drilling platforms. Along with the other partner, Press Offshore, it established the consortium with the aim of securing this contract. McDermott will make the piles and jackets for the platforms, the contract providing work for 300 people who would otherwise have been made redundant. Meanwhile, Lewis Offshore which is located at Arnish Point in Stornaway has fallen foul of its landlord the Stornaway Trustees. According to the lease signed by the company, Sunday working is prohibited at the site and recent activity on the Sabbath has left the local battalion of the Lord's Day Observance

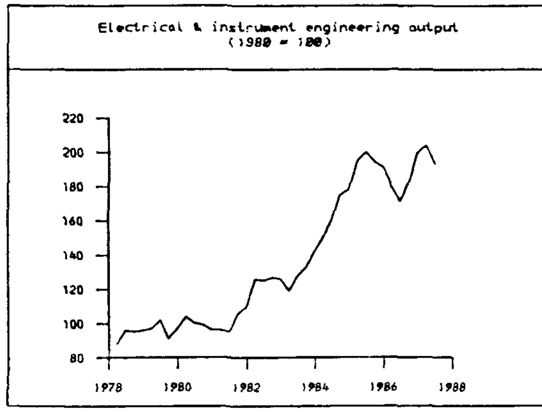
Society somewhat less than gruntled. Hence the Stornaway Trustee's insistence that Sunday working cease, with clear implications for the company's ability to meet production targets. Seaboard of Cumbernauld, the only UK owned supplier of well-head equipment to the oil industry has ben the subject of a £220,000 management buy-out from Triplex Lloyd, a firm created by the merger of Tiplex and F.M. Lloyd. The American counterpart Seaboard Inc. has also been sold to its management. The Cumbernauld operation will have to struggle to survive given the debt burden which it has inherited.

A number of companied have continued their re-structuring away from less successful operations and into new businesses. Eadie Holdings of Glasgow has acquired Pesca Engineering and its subsidiary Manchester Metal Works. Press, which produces rollers and other equipment for curtain-sided vehicles, will fit well with Eadie's earlier acquisition of Aunic Engineering, thus creating a new business division. The Howden group has bought the Belfast fan manufacturer Davidson from the Abercorn group for £9.5 million in cash. The money will be raised via a supplementary share issue with some of the funds being used to reduce the groups indebtedness. The International Twist Drill Group (ITD) of Peterhead has also completed a private share placing worth £3.05 million, part of which will be used to finance the puchase of Morse of Massachusetts, USA, with the remainder designatesd for further expansion. ITD was also the subject of a management buy-out two years ago.

Terex equipment will benefit from a joint venture agreement signed by the USA, UK and China for the exchange of equipment, technology and resources between Terex at Newhouse and Simmaco at Baotou in China. Initially Terex will supply off-highway vehicle parts to Simmaco, although in time all manufacturing will be handled at Baotou. Anderson Strathclyde, the mining equipment manufacturer has secured a contract to supply a 1.5 km spoil conveyor to Transmanche Link for £2.5 million. The conveyor will carry away 2400 tonnes per hour. John Brown Engineering will act as the sub-contractor to Hawker Siddley Power Engineers in the provision of the generating station for the trident base at Coulport. JBE will supply and install plant for the station.

Finally, four years of negotiations between the Engineering Employers' Federation and the Confederation of Shipbuilding and Engineering Unions (CSEU) aimed at securing a reduction in the number of hours in the standard working week have come to naught. Although a preliminary agreement appeard to have been secured the CSEU refused to accept its terms the subsequent agreement on a 5% increase in basic rates for 1987-88 was reached without reference to changes in hours.

ELECTRONICS



The provisional index of production of Scottish electrical and instrument engineering recorded a 5% fall in the second quarter of 1987, compared to the previous quarter. However, given the caution which must be exercised in trying to interpret such provisional (and frequently revised) figures, it is too early as yet to say whether this represents the beginning of a major setback in for the industry. Over the longer term, output almost doubled betwen 1980 and 1986.

Perhaps a better guide to the current state of the industry are the results of the December Scottish Chambers' Business Survey. A majority of respondents (79%) expected output to increase in the coming months, while 65% expected an increase in sales. Most growth is expected to occur in the rest of the UK (excluding Scotland) and in export markets. Unfortunately there seems little chance that this optimism will feed into increased employment as capacity utilisation is fairly low and there will have to be a greater and more substantial increase in actual sales before jobs are affected.

Recent months have seen several encouraging developments in the company sector, all to the benefit of the New Towns. In Irvine a successful management buyout of the Indy Electronics operation was negotiated. The company, which originally located in Scotland in 1984, came onto the market as a result of the decision of its founder to sell off his worldwide operations for what are believed to be health reasons. The transfer to a local management was aided by the SDA and Investors in Industry, both of whom took part in the negotiations and have provided equity finance as part of the £5 million package which secured the deal (with an additional £2 million new investment at Irvine planned). The end result is that an important manufacturing facility - Europe's largest semi-conductor assembly manufacturer - is now controlled locally, a welcome break with the accelerating trend of control moving outwith Scotland. The new company has inherited a state-of-the-art factory and has secured access to the ex-parent's techology as part of the deal. Clearly, it will take some time for the new operation to find its feet, but the management team believe that they can match the original plan to employ 55 people by 1990. 235 are presently employed at the plant.

A second piece of encouraging news is the decision of Japanese company Canon to upgrade its Scottish sales centre in Livingston into a separate company to be called Canon Business Machines Scotland. The change will give the local management a greater degree of operational control over marketing. The news is particularly encouraging because foreign multinationals in Scotland generally have a very low degree of marketing - only 40% of all foreign firms in Scotland have an indigenously based marketing department - and this may be one major reason why there have been so few indigenous spin-offs from foreign firms. The new company brings the total value of Japanese interest in Livingston to over £150 million, and it is the sixth Japanese company to locate there.

In East Kilbride, the recent decision of Avex and Motorola (see the last issue of this **Commentary**) were followed by the welcome news that another Japanese company, JVC, intend to invest £27 million in a plant to build colour televisions. If television production is successful, compact diskplayers and VDU's will also be made with total employment rising to 650 by 1993. The East Kilbride plant will be JVC's first colour television plant in Europe, which reflects Scottish strong performances in further attracting new inward investment.

Elsewhere in the New Towns, Cumbernauld has had two pieces of good news. First the innovative Hinari Products of Glasgow (the first Scottish firm to involve itself in a joint-venture with a Japanese firm) announced its intention to create up to 50 new jobs in a plant which will manufacture a new range of hi-fi and compact disc players. Secondly, OKI of Japan, which announced plans in July to build a £20 million computer printer factory, now intend to increase the factory space invlved to almost double the original size. Significantly, in view of the developments discussed above, this is to accommodate the firms European marketing, sales and design teams which are to be transferred to Cumbernauld from Dusseldorf.

In view of the increased level of Japanese interest in Scotland it is not surprising that the Government is taking an active interest in this market. The Secretary of State made a five day visit to Japan in October of last year and spoke to several companies, mainly in the electronics sector, and in December the SDA announced that it intends to target Japanese companies more closely and will be allocating additional resources to this. Press reports suggest that total Japanese interest in electronics in Scotland is roughly £180 million, with employment of 2,200. More importantly perhaps is the fact that in 1986 the USA (at present the major source of inward investment in Scotland) ran a high-technology deficit of around $20 million, mainly as a result of increased imports from the Far East. Clearly the authorities in Scotland feel it is important to obtain a strong foothold in the potentially large Far East for inward investment and to build on earlier successes.

They may also have been impressed by reports that the slide in the Stock Market had a particularly fierce effect on electronics companies in the USA with many firms seeing share prices fall by up to 30-40%. At present the situation still seems to be that many electronics firms fear that the uncertainty aroused by the fall would hit both capital and consumer spending. If this persists it will inevitably depress the overseas investment plans of many firms, although there is no evidence that this has happened to date. Nonetheless, continual uncertainty will evenually result in a significant tightening of the market for overseas investment, and the SDA is therefore wise to diversify its activities by expanding into areas like Japan.

TRANSPORT EQUIPMENT

The shipbuilding sector has had mixed news in recent months. British Shipbuilders half-yearly figures for the period up to September 1987 showed losses of £23 million, a substantial fall from the figure of £51 million for the comparable period of 1986. Most of this however was accounted for by the decision to retain the workforce at Govan on three-quarter pay prior to beginning the £70 million Chinese order due to start in March. In view of the severely depressed state of the world shipbuilding market, the British Shipbuilders figures are much better than expected and the management remain cautiously optimistic about prospects for the industry.

In Aberdeen, the Hall-Russsell yard appears to be steaming ahead. From a position of having no new orders late last year, it has followed up its successful bid for the St Helena ferry by securing a £5 million contract to lengthen a ferry for P & O and is one of three companies in the bidding to build a £20 million mooring vessel for the Ministry of Defence. The future for the workforce of 450 is at present much more secure than it appeared to be a few months ago.

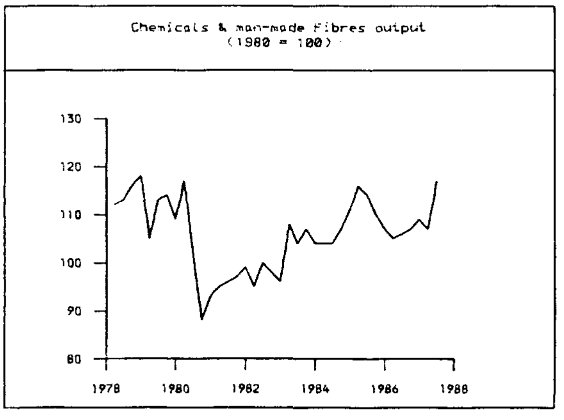
At Yarrows on the Clyde there is still no firm news regarding either the MOD decision on where to place the orders for the new Type 23 frigate or whether the Pakistan governments order for the Type 23 is likely to go abroad. The Managing Director of Yarrows has reiterated his warning that at least 500 jobs will go by the end of this year if Yarrows does not secure the MOD order. However, the firm remains the favourite to secure at least some of the 12-15 ships likely to be built, having designed and built previous Type 23's.

The expected announcement that the Scott-Lithgow yard would be mothballed was made in December. From this month, only 100 workers will remain and Trafalger House - who have reportedly lost £100 million since they purchased the yard in 1984 - expect no new oil-related work until at least 1990, a projection considered optimistic by industry analysts. One possible glimmer of hope is that the yard will win the £50 million order for a steel-jetty to service the new Trident base at Coalport. Scott-Lithgow feel they are favourites to win the order, if only because of the proximity of the yard to Coalport, but they will clearly face stiff competition, mostly from other Clyde yards and from Harland and Wolff. A final decision is not expected until July.

In the vehicles sector, controversy still surrounds the proposed new Ford plant at Dundee. The STUC has unreservedly welcomed the plant, and stressed that the inter-union disagreement should on no account be allowed to jeopardise jobs. Meanwhile the AUE seems determined to stand its ground in defence of the single union deal, despite the TGWU's formal submission to the TUC that the deal breaches the Bridlington Agreement. The TUC, however, seems to agree with the STUC that the disagreement is an internal affair and that the employment issue is more important.

CHEMICALS AND MAN-MADE FIBRES

The latest Scottish index of industrial production figures reveal that over the second quarter of 1987, output in the chemicals and man-made fibres sector rose by 9% to stand at 117 (1980=100). Although this figure is subject to revision, if accurate it implies that the industry has completely reversed the losses in output suffered since the first quarter of 1985 and indeed the index is now at its highest level at any time since 1980. When the four quarters to June 1987 are compared to the four quarters a year previously then growth is a much more modest 3%. This compares unfavourably with the corresponding figure of 6% for the UK as a whole and indicates that the Scottish sector still lags behind its counterpart in the rest of the UK. Whilst the latest figures are to be welcomed, it remains to be seen whether this marks the beginning of a sustained period of growth or if the industry will suffer from recent events and the expected downturn in world economic activity. This is particularly crucial for this industry given its heavy reliances on foreign markets.



Some indication of how recent evets have influenced optimism in the industry is provided by the Scottish Chambers' Business Survey for Janaury. For the second survey in a row, 100% of respondents were at least as optimistic about the general business situation in their industry than they had been three months previously with 46% claiming to be more optimistic. This marks a continuation of the trend towards increasing optimism that has been evident in Survey responses for the past year or so and give the timing of the latest responses must increase the possibility that growth will continue.

The source of this increased optimism lies in a continuation of the upward trend in the volumes of new sales and orders over the final quarter of 1987 and the expectation that this will continue into 1988. A balance of 54% (28%) of firms reported an upward trend in new orders (sales) over the latter part of 1987 whilst a balance of 44% (28%) expected this to continue. The figures for exports are particularly encouraging with balances of 54% (19%) reporting an upward trend in actual orders (sales) and 52% (28%) expecting further growth in these areas.

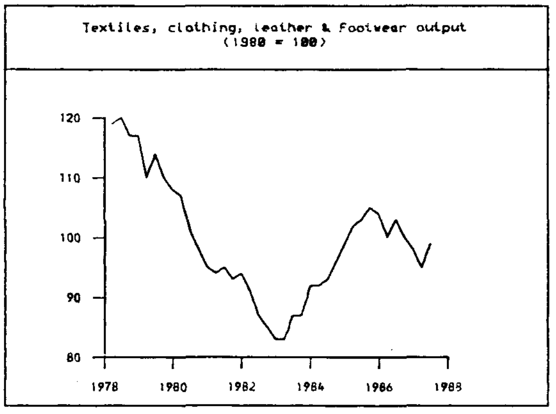
In a similar vein, investment intentions, if anything have been improving towards the end of 1987. A balance of 23% of respondents reported that intentions to invest in plant and machinery had been revised upwards whilst the most important reasons for recent new investments were for replacement and the need to improve efficiency.

Despite this optimistic view of trends in the industry there does not appear, as yet, to be any prospect that this will be translated into increased employment. Excluding seasonal factors, a balance of 26% reported that employment had fallen over the last quarter of 1987 whilst a balance of 14% expected similar trends in the early part of 1988

One of the most significant developments in the industry over the last quarter was the announcement in December that the Greenock based polythene and polypropylene packaging products firm Scott & Robertson had acquired the Stockton-on-Tees based polythene film business British Visqueen. Scott & Robertson are reported to have paid the former owners, ICI, £12 million and the acquisition, in effect, creates a group which is now in the top five of the European polythene film manufacturing industry. As a consequence of the takeover, Scott & Robertson's annual turnover will approximately double to £70 million whilst its workforce rises from 600 to almost 1000. This is the latest in a series of acquisitions carried out by the firm. Earlier in 1987 they paid £350,000 for the 50% stake in Tay Spinners of Dundee which they did not already own. In addition they purchased PCL Packaging (UK) for £3 million from its Canadian parent company.

In November Beechams reported interim profits of £181 million a rise of 17.6%, which some observers took to be relatively disappointing. However, in December they announced their intention to spend around £3 million on their pharmaceuticals plant at Irvine over the next two years. This expansion is expected to provide around 20 new jobs to be added to th current work force of approximately 800.

TEXTILES, LEATHER, CLOTHING AND FOOTWEAR



The official index of industrial production for Scotland moved from a level of 95 to 99 between the first and second quarters of 1987. This gain of 4 points between two quarters is the same as the increase in the United Kingdon. However, when one looks at the change between the latest four quarters on the previous four quarters the UK index shows a gain of 1 index point while the Scottish figure shows a decline of 5 index points.

The respondents to the Scottish Business Survey from the textile sector showed no change in the state of confidence about general business outlook as compared with the previous survey three months earlier. This may reflect a degree of caution in the light of the stock market crash, since trends in both new orders and sales volume are remarkably up. Fifty seven per cent of respondents quoted that their new orders had increased in the past three months while only 1% reported a decline. Seventy two per cent expected sales volume to increase over the next three months, while 24% expected a fall. Both employment and investment intentions were positive. A balance 40% of respondents expected that their employment would increase over the coming quarter while a balance of 44% expected to increase their investment. Of those expanding their investment, 63% reported that the reason for undertaking the investment was capacity expansion.

The value of textile and clothing imports in Britain rose by 12% in the first three quarters of 1987. Almost all of this increase came from far Eastern countries such as Hong Kong, South Korea and Indonesia, whose currencies are linked the the US dollar. As the year progressed and as the dollar declined the rate of increase accelerated.

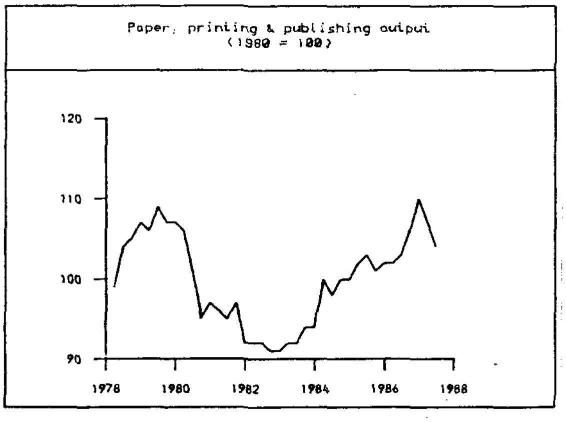
Dawson International reported interim profits for the half year to September 30th up by 21% to £19 million. Despite these figures, the share price fell by 5 pence, no doubt on the basis that about one third of Dawsons sales are to the United States.

Dawson sold its loss-making subsidiary MacKinnon after making a £2.9 million provision for that company in last years accounts. In all 1,000 jobs were lost as a result of the winding down of MacKinnon. In order to raise its share price Dawson intends to seek permission from its shareholders to buy back almost 10% of its own shares. These fell in value from a peak for 1987 of 362 pence just before the crash to a low of 179 pence.

Stoddard Holdings the Elderslie-based carpet manufacturers increased pre-tax profits from £396,000 to £1.14 million in the six months to September 30th. This marks a further step in the long recovery from 1982 when the company was re-financed in a joint deal between the SDA and Bank of Scotland. Richards, the Aberdeen-based textiles group, recorded its fifth consecutive year of growth with a 78% increase in pre-tax profits. Turnover rose from £16.5 million to £28.2 million.

PAPER, PRINTING AND PUBLISHING

The latest figures for the index of industrial production in Scotland show that output in the paper, printing and publishing sector fell by 3% over the second quarter to June 1987 to stand at 104 (1980=100). However, when the four quarters to June 1987 are compared to the four quarters a year previously, output is seen to have increased by 5%. This can be explained by the relatively strong growth over the latter half of 1986 and the situation of little change in the year to June 1986. In contrast to the situation which has prevailed for much of the 1980's, the index for this sector in the UK as a whole now exceeds that for Scotland although this mostly reflects divergent experience over the last quarter for which comparable figures are available. More specifically, over the second quarter of 1987 the UK index rose by 5% to stand at 111 whilst annual growth was of the order of 6%.



An analysis of the responses to the January Scottish Chambers' Business Survey by firms in this sector reveals noticeable differences to those recorded for all industries taken together. Whilst the survey indicates a general increase in business confidence a balance of 13% of respondents in paper, priting and publishing were less optimistic about the business situation in their industry than they had been three months previously. The source of this reduced confidence would appear to be the difference in actual trends in new orders and sales experience over the last quarter of 1987 "and trends expected for the early part of 1988". For instance, a balance of 28% of respondents reported upward trends in the actual volume of new orders whilst a balance of 7% expected a downward trend in these over the coming three months. This partly reflects changes which are expected to occur in markets outwith Scotland. Whilst a balance of 55% (27%) reported increases (decreases) in UK (foreign) orders, 4% (60%) expected a downward trend. A similar story can be told for the trends in sales with a balance of 59% reporting increases in the actual volume of sales, and only a balance of 11% expecting a continuation of this trend.

Again most of this change is explicable in terms of what has happened, and what is expected to happen, in markets outwith Scotland. A balance of 76% (29%) reported an upward (downward) trend in sales to the rest of the UK (abroad) whilst a balance of 25% (47%) expected further increases (decreased) over the first quarter of 1988. These more pessimistic expectations are reflected further in the reponses to questions about employment trends. A balance of 18% reported a downward trend in total actual employment whilst 44% expected such a trend over the coming three month period.

Overall these figures make disappointing reading However it remains to be seen whether they simply reflect a response to events towards the end of 1987 and if they will be translated into actual outcomes.

Services

BANKING, INSURANCE AND FINANCE

"The Scottish Financial Sector" published in January, in addition to providing a survey of existing institutions and markets identifies a number of key issues that may be expected to play a significant role in shaping the financial services industry in Scotland in the future and determining its prosperity. It notes, as might be expected, the impact of deregulation, changing technology, performance and competition but also emphasises the significance of marketing, international influences and education and training for the sector.

Marketing is of particular concern. The book whilst recognising the importance of the intitiatives of Scottish Financial Enterprise to promote the sector, argues that the problem goes much deeper. The new competitive environment that has followed the variety of Government measures aimed at reducing regulation in the finaincial services industry has led to a reduction in brand loyalty, shorter product cycles and the reduction of some products to commodity status. In short, the competitive position of many products and hence some producers has been undermined. The impact of such changes on a market sctor are highlighted by the plight of the UK Building Society industry. Although Scottish producer involvement in the industry is small the changes that have taken place in the industry are instructive and a warning to other parts of the financial services industry. In the 1970's the share of the banks in the UK mortgage market was less than ten per cent of the total. For Scotland building society advances in 1980 were £2655m against £203m (7% of the total) by the Scottish clearers. By 1984 the respective shares were £5569m against £1141m (17% of the total) an adverse trend that has continued and is believed to have resulted in the building society share of the housing market for the UK slipping below 60% in 1987. The cause of this decline has been twofold, marketing and regulation. Targeted marketing has allowed the competition to aim at the most profitable areas of the housing market, particularly large loans with low administrative costs, and to offer a fast, efficient and cost effctive mortgage service. The marketing has been aided by past memories of mortgage rationing administered by the building societies with its connotations of inconveneince and unfairness and by restrictions placed on the societies by the Building Society Act. As this Commentary foresaw that Building Society Act has hindered the competitive abiity of the societies and placed them in a difficult position. Changes in the financial system have made it increasingly desirable for insitutions to borrow on the wholesale market for funds both because of the relative cheapness of such funds and because the societies internal sources of funds have been under increasing pressure due to the equity boom (although this factor has abated for the present) and particularly the competition from other savings institutions and contracts including bank deposits, life assurance and unit trusts. The Building Society Act limits the societies borrowing in the wholesale markets to twenty per cent (potentially forty per cent) of their funds so that their access to cheap money is limited. The result has been the inevitable loss of market share as the societies find it difficult to compete. In the absence of a new Act, or unless competitive pressures in the mortgage market ease, there are relatively few options open to the societies. The larger societies may be able to survive as building societies by drastic control of costs and exploiting econmies of scale and helped by the easing of controls announced by the government this month but it is unlikely that the smaller societies will survive except by merging. One option offered by the 1986 Act and now possible is the conversion of the societies into banking organisations with stock market listing and it appears that several of the larger societies including the Halifax have been investigating such possibilities. Interestingly, the Bank of Scotland has recently completed its investment in Countrywide Banking Corporation of New Zealand. Countrywide was formerly New Zealand's second largst building society but has now converted (the first such conversion in New Zealand) into a banking organisation in which Bank of Scotland has a forty per cent stake. This connection could prove a model for the UK although building societies converting to banks would be protected from takeover for five years.

If this analysis is correct the building society could be the new dinosaur of the financial services sector. Scotland may congratulate itself in its low involvement in the industry but it provides lessons for the Scottish financial sector as a whole. Scotland continues to have a large share of the other financial services dinosaur, the investment trust industry. The days of the investment trust have appeared numbered for some years, a reflection of both the regulations that have prevented the trusts from advertising in the same aggressive fashion as unit trusts and the conservatism and complacency of some investment trust managers. Latest of the managers to be besieged is Ivory & Sime who are being forced into a reconstruction package as a result of the holding of a large stake in Japan Assets by Anglo and Overseas Investment trust managed by Morgan Grenfell who want to unlock the discount that is common to most investment trusts. To counter a breakup of the trust (and consequent loss of management fees) Ivory and Sime are offering shareholders a three way option. They can switch their investment into; a new investment trust- Selective Assets - comprising ordinary shares and an Index loan stock; invest in a new open ended fund ofering a range of investment options; or switch to particular closed-end funds depending on the trust they are currently invested with. The options offer investors a considerable range of choices but stop short of offering cash. The motivation behind the reconstruction is to reduce the loss of assets currently being managed by Ivory & Sime, but how successfully this can be achieved will depend on investors belief in the efficacy of the Ivory & Sime management. The second option, the switch into open ended funds, will allow investors to liquidate their holdings at o near asset value. It may also result in a substantial contraction of the firm's assets under management as institutional investors liquidate their holdings. It remains to be seen whether the alternative switches on offer are sufficiently attractive to tempt investors away from option two. On recent performance option one looks attractive. Selective Assets will have a two tier structure of Index loan stock and ordinary shares. The loan stock will exactly match the FTA All Share Index, the ordinary shares will secure the residue. Indices are generally hard to match since they ignore the inevitable transaction costs that must arise in administering such a scheme. The ordinary shares thus start at a disadvantage and a consequent substantial discount to net assets since the cost will fall on these shareholders. The only possibility is for management to secure above average performance. Academic evidence does not suggest that fund managers are able to secure such performance except by chance. Switch three will be attractive to some investors. The problem is that by selecting option two and redeeming their investment investors are able to secure the benefits of option three by invesing directly in venture capital or overseas funds. On balance, the reconstrction proposals are interesting but unlikely to secure the managers' objectives. The managers might have been better served by accepting the inevitability of utitilisation and using their ingenuity to construct advertising campaigns to attract new investors to offset the loss of institutional investors. All is not lost by unitising. The much higher fees and trading profits from buying and selling units suggest that profitability can be maintained despite the consequences of substantial redemptions.

The attack on Ivory and Sime is likely to be repeated with increasing frequency throughout the investment trust industry. Managers of investment trusts should be developing strategies to cope with possible predators. Scotland, as a major centre of investment trust activity, is particularly vulnerable and unless careful thought is given to possible defences against attack there could be a substantial reduction in investment activity in this sector of Scotland. The rejuventation of the unit trust industry in Scotland provides some comfort although the leaders of the rejuventation are not generally those involved in the management of investment trusts. Indeed, the rise of the Scottish life offices in the unit trust market vividly reinforces the view that marketing is a key element in the continued success of the Scottish financial sector. Unit trust sales reflect an active and vigorous marketing campaign. They point the way for the sale of other financial products and indicate the need for players in the financial services market to develop their marketing training and research although such training must be combined with an awareness of the financial implications of new products and a sensitivity to the needs of their clients. Long term success is unlikely to follow from the remorseless sale of a single financial product no matter how inappropriate to individual circumstances but rather from meeting customer needs and providing a suitable package of financial instruments. There is little evidence of such an approach being implemented as yet by any Scottish financial institution.

P Draper, I Smith, W Stewart and N Hood **"The Scottish Financial Sector"**, Scottish Industrial Policy Series 4, Edinburgh University Press, 1988.

DISTRIBUTIVE TRADES

A net 48% of wholesale respondents to the January Scottish Chambers Business Survey reported sales increases in the fourth quarter of 1987, justifying optimism expressed in October. Furthermore, a large majority of wholesalers expected further sales growth in the first quarter of this year.

Unfortunately, in spite of the good sales performance, employment in Scottish wholesaling fell again in the fourth quarter, according to a net 32% of SCBS respondents. Losses in full-time jobs predominated, but there was also a decline in part-time employment. A small majority of wholesalers expected employment to fall still further in the first three months of 1988.

Table 1 shows the geographical breakdown of responses to the January survey. Wholesalers in the Glasgow, Dundee and Edinburgh areas showed strong overall sales growth in the fourth quarter, generally exceeding their predicitions make in October. On the other hand, net sales growth in Aberdeen wholesaling was modest, poorer than in the third quarter, and less than respondents had expected. Labour-shedding was marked in both Dundee and Aberdeen, a trend which is expected to be reversed in Dundee but continued in Aberdeen.

Table 1 Geographical response to January 1988 SCBS: wholesaling

		Balance of Respondents			
		G %	E %	D %	A %
Overall confidence	UP	+27	+96	+32	-10
Actual sales	UP	+45	+96	+65	+ 8
Expected sales	UP	+35	+85	+65	+12
Actual employment	UP	+22	+61	-59	-49
Expected employment	UP	0	+15	+30	-31
Investment intentions	UP	+11	+19	+29	+18

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

According to the SCBS returns, Scottish retailers enjoyed a strong sales performance in the fourth quarter, in line with both actual and forecast trends throughout the whole of last year. A net 44% of respondents reported sales increased between October and December (which is actually somewhat **less** than the net 58% who, in October, had expected sales growth during this period). Interestingly retailers seem to be discounting any possible adverse effects on consumer expenditure of the stock market crash: 45% of SCBS respondents were more optimistic about business conditions in January than they had been in October, while only 9% were less optimistic. Furthermore, a net 59% of respondents expected further sales growth in the first three months of this year.

As predicted by SCBS respondents in October, Scottish retail employment grew during the last three months of 1987 (almost certainly due in part to Christmas, though respondents are asked to exclude seasonal factors), with a net 36% and a net 35% of firms recording increases in full-time and part-time employees respectively. Overall employment is expected to remain static in the first quarter of 1988 and very few firms were experiencing any difficulties due to labour shortages.

Table 2 gives the geographical distribution of January SCBS responses for retailing.

Table 2 Geographical response to January 1988 SCBS: retailing

		Balance of respondents			
		G %	E %	D %	A %
Overall confidence	UP	+15	+34	+ 4	+71
Actual sales	UP	+52	+35	+23	+85
Expected sales	UP	+18	+81	+52	+85
Actual employment	UP	+36	- 8	+53	+52
Expected employment	UP	+36	-17	-16	0
Investment intentions	UP	+21	+ 5	+14	+ 1

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

In contrast to the wholesaling sector results, Aberdeen retailers had a particularly good fourth quarter and were highly optimistic about short-term prospects especially in sales terms. Indeed, further sales increases in the first quarter were expected in all four cities, though employment prospects were less encouraging.

TOURISM

In a recent address to the Scottish Confederation of Tourism (SCOT). Lord Sanderson, Scottish Office Minister of State, reflected on the failure of the country's tourist industry to increase market share over the past decade. He went on to itemise various initiatives which might lead to more cost effective national and local level marketing, and highlighted the need to improve accommodation facilities and attractions. Compared to England and Wales, direct Exchequer spending on tourism in Scotland was substantially higher on both a per resident and a per visitor basis. And the coming financial year would see the

Scottish Tourist Board (STB) receive a 10% increase in government funding. Lord Sanderson emphasised that there were no fewer than three government development agencies sponsoring the Scottish tourist industry, viz, STB, the Highlands and Islands Development Board (HIDB), and the Scottish Development Agency (SDA) and indicated that a new Scottish Tourism Co-ordinating Group had been established to oversee their activites. At a local level, the national network of 32 Area Tourist Boards (ATB's) was dependent on the public sector for two-thirds of its operating revenues - in England the comparable figure was less than half. ATB's were to be induced to maximise non-public sources of income. They ought also to reduce costs and duplication by combining themselves into regional marketing consortia.

Lord Sanderson's comments are to be welcomes on two counts. First, they contained a sober, realistic assessment of the industry's recent performance which was refreshingly free of the by now customary hype of the "tourism is booming/its been another record year" variety. Secondly, they highlighted the need to improve products and selling techniques.

Lord Sanderson gave little or no indication, however, as to how Scotland was to put aside the disappointments of the past and increase market share. Notwithstanding the favourable English:Welsh comparison, raising the profile of Scottish tourism means finding additional government cash to lift major development projects off the ground (eg Aonach Moor, the Edinburgh Conference Centre, the Scottish Emigration Centre) and to promote vigorously. The fact that the country's greatest resort, Edinburgh, currently has a budget for destination promotion of £165,000 indicated the extent to which Scottish tourism is cash starved. The new Scotch Whisky Heritage which opens shortly in Edinburgh will enhance the capital's attractions base and is noteworthy because its £2 million capital financing received no help from the public sector. But larger development projects and the macro-level marketing of resorts and nations depends nearly everywhere on public sector encouragement and sponsorship. Here ministerial pronouncements and Scottish Office commitment need to go well beyond exhortations to achieve better value for money.

The Labour Market

Employment

The latest figures for employees in employment in Scoland are shown in Table 1. There was very little overall change in employment in the year to June 1987 with an increase of only 3,000. However, as noted in past **Commentaries** this aggregate figure disguises a variety of experience across sex and broad industrial category.

Male employment recovered somewhat over the second quarter of 1987 but remained 9,000 lower than the figure reported a year earlier. It now stands at 1,014 thousand, 4.3% below tht total for June 1983 and 15.9% below June 1979. In the year to June 1987 female employment rose by 12,000 which represents an increase of around 1.4%. Indeed, in the four years since June 1983 the increase is of the order of 4.5% or an additional 38,000 jobs. Nevertheless, the latest figure remains below that recorded in 1979 with 20,000 fewer women now in employment. Although the figure for females is relatively encouraging it should be borne in mind that a substantial proportioin of the new employment witnessed over the year to June 1987 is part-time, accounting for over 93% of the increase. The trend towards an increasingly important role for part-time work is even more apparent when it is noted that this category accounted for 37%, 40% and 43% of total female jobs in the June of 1979, 1983 and 1987 respectively.

There remains little indication that total employment in the production and construction industries is recovering from the substantial falls recorded in the earlier part of this decade and the continued steady decline since 1983. In the year to June 1987, employment in this catagory fell by around 2.5% to stand at 582,000. This figure is 10% lower than the correspnding total for June 1983 and 30% below the 1979 figure. Of the latest fall, 12,000 jobs were lost in manufacturing whilst 7,000 were lost in the remainder of the production industries.

In contrast, service sector employment continues to grow, increasing by 19,000 in the year to June 1987 and at a rate sufficient to outweigh the numbers of jobs last elsewhere in the economy. A sigificant proportion of this, and earlier increases, can be accounted for by the rise in part-time female employment as noted above. Whilst, employment in this sector is 5% above its 1983 level and 4.5% above its 1979 level, these figures do not allow an assessment of the trends in the numbers of full-time equivalents in this sector.

Table 2 presents details of the industrial composition of employees in employment in Scotland. These figures show that over the year to June 1987 employment rose in four industries (Construction, Banking, Insurance and Finance, Public Administration and Defence and Education, Health and other Services), remained constrant in one (Wholesale Distribution and Hotels and Catering) and fell in the remaining seven.

The most significant increase was in Banking etc., up by 6.4% or 10,000 additional jobs. This marks a continuation of a longer term trend of employment growth in this industry where, since the June of 1979 and 1983, employment has arisen by 34% and 18% respectively. Its contribution to total service employment has grown accordingly, up from 10% in 1979 to 13% in 1987. This industry is highly untypical as in only three other sectors are current figures above these recorded in 1979 (Wholesale Distribution etc. up 1.0%, Public Administration etc. up 4.7% and Education etc. up 9.9%) and only five have registered an increase since 1983 (increases of 5.9%, 4.1% and 6.5% respectively for the industries mentioned above in addition to Construction up 3.7% and Retail Distribution up 1.1%) and in

Table 1 Employees in employment in Scotland: industry aggregates (000's)

	Male	Female All	Female Part-time	Total	Production and construction inds.	Production inds.	Manufacturing inds.	Services inds.
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1984 Mar	1,040	840	341	1,880	633	498	432	1,210
June	1,043	858	347	1,901	635	499	434	1,231
Sept	1,053	851	346	1,904	638	499	434	1,229
Dec	1,045	857	356	1,902	637	499	433	1,233
1985 Mar	1,039	853	352	1,892	630	493	430	1,230
June	1,040	864	362	1,904	627	491	430	1,244
Sept	1,044	868	363	1,912	625	489	430	1,252
Dec	1,032	866	366	1,897	616	481	423	1,251
1986 Mar	1,020	855	361	1,875	604	471	415	1,240
June	1,023	865	364	1,888	597	463	410	1,260
Sept	1,022	865	365	1,887	596	461	409	1,261
Dec	1,011	866	372	1,877	588	452	405	1,259
1987 Mar	1,004	862	371	1,866	581	444	398	1,255
June	1,014	877	375	1,891	582	444	398	1,279

Source: Department of Employment, especially supplement to Employment Gazette, October 1987

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

	Agriculture forestry and fishing	Energy and water supply	Metal manufacturing and chemicals	Metal goods, engineering and vehicles	Other manufacturing	Construction
SIC 1980	0	1	2	3	4	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	179	179	136
1987 Mar	30	46	47	177	174	137
June	30	46	46	178	173	139

	Wholesale distribution hotels & catering 61-63 66-67	Retail distribution 64/65	Transport and communication 7	Banking insurance and finance 8	Public administration & defence 91-92	Education health & other services 93-99
Scotland						
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	19	109	159	176	435
1987 Mar	189	183	106	162	177	438
June	199	185	109	165	178	443

Source: Department of Employment, especially supplement to Employment Gazette, October 1987 all cases growth has been much less spectacular.

Of the sectors registering a fall in employment, the largest absolute fall in the year to June 1987 occurred in Other Manufacturing. However, this proportionate fall of 4.4% was easily exceeded by a 13.2% drop in employment in Energy and Water Supply.

Unemployment: Stocks and flows

The recent downward trend in unemployment noted in past Commentries continued throughout 1987 (see Table 3). Over the course of 1987, total seasonally adjusted unemployment in Scotland fell by almost 39 thousand to stand at a provisonal figure of 308.6 thousand, a fall of 11.2%. This total change comprised a fall in male unemployment of 24.6 thousand (down 10%) and a fall in female unemployment of 14.2 thousand (down 13.5%). The proportion of the labour force on the register in December 1987 was 12.5%, 1.5% fewer than a year previously.

As noted in the last Commentary, whilst reductions in unemployment are generally to be welcomed, it remains to be seen what the source of these falls is. Of the three major possible explanations, an increase in the demand for "permanent workers", increases in the number of people on special employment measures or an increase in the number of people withdrawing from the labour force, the aggregate employment figures presented above would appear to offer support for the first of these. Between December 1986 and June 1987, unemployment fell by 13,600 in total whilst over the same period total employment rose by 14,000. However, the adequacy of this explanation is questioned when it is noted that male unemployment fell by 6,900 but employment rose by 3,000. Similarly female unemployment fell by 6,700 and employment rose by 11,000. This suggests that at least part of the explanation must lie elsewhere but further comment must await more recent data.

Table 4 summarises the recent past of flows into and out of unemployment. As the stock figures imply, flows onto the register have continued to fall over the final quarter whilst flows off have increased. The figures show that whilst gross flows remain large in relation to the stock, at around 11%.

Table 5 presents information on the duration of unemployment by broad age category as of October 1987 and October 1986. The absolute numbers of long term unemployed has fallen in each age category over the year which to some extent may reflect a favourable impact of the government's special employment measures.

However, unemployment among this group of the uemployed has not been falling as fast as unemployment in general and therefore the long term unemployed account for a greater share of the total in Octber 1987 than they did one year ago. The only exception to this general observation is for workers in the age category 20-34 where there was a marginal fall in the proportion of the unemployed who had been on the register for more than one year.

Vacancies

Once allowance has been made for seasonal factors, total vacancies notified to Job Centres, excluding those for the Community Programme, stood at 20,800 in December 1987 (see Table 6). Although this represents a fall of 700 over November, the figure is still higher than at any other time sicne 1979 and approximately 4,000 above the corresponding figure for 1986. Evidence from the MSC suggests that the majority of these vacancies are for jobs in the service sector and Hotels and Catering, Public Administration and Defence and Retail Distribution in particular. Construction vacancies are also represented disproportionately. Vacancies for places on the Community Prgramme fell by 800 over the quarter whilst there was little change in the numbers reported to Careers Offices.

All these figures combined (falling unemployment, rising employment and rising vacancies) provide evidence of a continued improvement in Scottish labour market conditions. However, with the expected fall in both UK and world economic activity, some doubts must remain as to how strong these trends are and how long they can be expected to continue.

INDUSTRIAL RELATIONS IN SCOTLAND

Issues in the public sector seem set to dominate Scottish industrial relations for the short and medium term. The

Table 3 Scotland - Unemployment - seasonally adjusted (excluding school leavers) (000s)

Date	Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate: percentage of working population
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 Jan	244.4	104.9	349.3	1.9	1.1	14.1
Feb	243.4	102.9	346.3	-3.0	0.3	14.0
Mar	242.4	101.4	343.8	-2.5	-0.1	13.9
Apr	242.5	102.8	345.3	1.5	0.0	13.9
May	237.9	98.8	336.7	-8.6	-1.6	13.6
June	235.7	98.1	333.8	-2.9	-2.3	13.5
July	232.9	98.0	330.9	-2.9	-3.1	13.4
Aug	229.4	97.3	326.7	-4.2	-3.3	13.2
Sept	226.4	93.5	319.8	-6.9	-4.0	12.9
Oct	223.1	92.2	315.3	-4.5	-5.0	12.7
Nov(r)	220.0	91.1	311.1	-4.2	-4.3	12.6
Dec(p)	218.0	90.6	308.6	-2.5	-4.2	12.5

(p) Provisional a subject to revision (r) Revised
All figures are individually rounded and therefore may appear not to balance.

Source: Department of Employment

Table 4: Unemployment flows - standardised, unadjusted: Scotland ('000s)

	In-flow				Out-flow			
Month ending	Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year	Total incl. school leavers	School leavers	Total excl. school leavers	Change since previous year
1987 Jan	46.0	7.3	38.7	2.2	30.8	1.3	28.2	5.8
Feb	42.8	3.8	39.0	1.3	50.7	4.1	46.6	4.5
Mar	38.3	2.3	36.0	0.8	47.1	3.1	44.0	5.4
Apr	42.4	1.8	40.6	2.8	42.7	2.0	40.7	-0.4
May	35.5	1.5	34.0	-2.6	50.5	2.1	48.4	5.7
June	38.1	1.5	36.6	-3.3	44.4	1.6	42.8	2.1
July	50.5	1.8	48.6	-1.5	47.7	1.9	45.8	3.7
Aug	39.3	1.2	38.0	-1.9	45.1	1.6	43.5	3.1
Sept	53.6	9.9	43.7	-3.2	57.2	2.6	54.6	4.3
Oct	46.7	3.6	43.1	-2.6	54.5	4.6	49.9	2.2
Nov	44.0	1.7	42.4	-0.9	47.5	3.0	44.5	3.5
Dec	38.2	1.4	36.8	-2.2	35.4	1.6	33.8	0.6

Source: Department of Employment

Table 5: Long-term Unemployment : Scotland October 1987, October 1986

Age	Long-term Unemployed	Total	%Long-term Unemployed
October 1987			
less than 20	11,429	52,065	22.0
20-34	53,254	145,044	36.7
35-54	52,290	96,729	54.1
55 and over	19,212	31,624	60.8
Total	136,185	325,462	41.8
October 1986			
less than 20	12,917	61,383	21.0
20-34	59,836	161,511	37.0
35-54	53,961	102,726	52.5
55 and over	19,676	33,616	58.5
Total	**146,390**	**359,236**	**40.8**

Source: Department of Employment

Table 6 : Unfilled Vacancies Scotland ('000s)

	Vacancies at Jobcentres						Vacancies at Careers Offices
	Seasonally adjusted* Excluding Community Programme			Adjusted			
Date	**Number**	**Change since previous month**	**Average change over 3 months ended**	**Total**	**Community Programme**	**Total excluding Community Programme**	**Unadjusted**
1986 Dec	16.9	-0.1	0.0	18.2	3.2	15.0	0.3
1987 Jan	17.2	0.3	0.2	18.5	3.9	14.6	0.3
Feb	17.3	0.1	0.1	18.6	3.4	15.2	0.3
Mar	17.6	0.3	0.2	19.8	3.1	16.7	0.3
Apr	17.2	-0.4	0.0	20.2	3.0	17.3	0.3
May	18.1	0.9	0.3	22.7	3.5	19.3	0.5
Jun	18.2	0.1	0.2	23.1	3.3	19.7	0.4
Jul	18.3	0.1	0.4	23.1	3.2	19.8	0.4
Aug	18.7	0.4	0.2	23.4	4.1	19.3	0.5
Sep	19.6	0.9	0.5	25.0	3.9	21.2	0.4
Oct	20.7	1.1	0.8	25.4	3.4	22.0	0.4
Nov	21.4	0.7	0.9	24.6	3.2	21.4	0.4
Dec	20.8	-0.6	0.4	22.0	3.1	18.9	0.5

+ Vacancies at Jobcentres are only about one third of all vaancies in the economy

Table 7: Vacancy flows at Jobcentres, standardised, seasonally adjusted Scotland

Thousands

Date		In-Flow		Out-Flow		of which: Placings	
		Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1986	Dec	20.0	-0.5	19.7	-0.5	16.6	0.2
1987	Jan	19.8	-0.3	19.4	-0.7	16.3	-0.7
	Feb	18.9	-0.1	19.0	0.1	16.1	0.1
	Mar	21.2	0.4	20.8	0.4	17.7	0.4
	Apr	20.0	0.1	18.9	-0.2	15.9	-0.1
	May	19.2	0.1	19.1	0.0	16.5	0.1
	Jun	20.9	-0.1	20.4	-0.1	18.0	0.1
	Jul	20.0	0.0	19.6	0.2	16.9	0.3
	Aug	19.8	0.2	19.4	0.1	16.8	0.1
	Sep	20.3	-0.2	18.7	-0.6	19.8	0.6
	Oct	21.0	0.3	20.2	0.2	17.3	0.1
	Nov	22.2	0.8	21.6	0.7	18.3	0.5
	Dec	22.7	0.8	22.9	1.4	19.4	-0.1

consequences of Central Government policies of privatisation and competitive tendering will inevitably lead to industrial relations difficulties for several years. Disputes, of one form or another, will occur in coal, road and rail transport, health, education and local authority services.

Election issues within the coal industry provided but a brief diversion from the longer term contraction of the industry in Scotland. Employment levels continue to be under threat for a combinaion of factors:- first, the SSEB is likely to reduce its demand for Scottish Coal in preference for both imported coal and other energy sources. Secondly, British Coal's push in developing open cast mining with its far lower manpower and operating costs. Thirdly, any developments of deep mining appear to be contingent on the NUM accepting six day working and other flexible working practices.

Increased centralisation of decision making within British Rail has led to a reduction in the range of work within Scot Rail and to job transfers and losses. Flexible work practices, reductions in manning and cost saving plans have been a feature of negotiations between Scottish Health Boards and employees for several years. Arguably a considerable degree of progress had been made, including many concessions by trade unions representing the lowest paid groups, namely acncilliaries. There was a widespread belief, amongst employees, that changes and cost savings would improve their security of employment by reducing the likelihood of their work being the subject of competitive tendering by private organisations. Industrial action was inevitable when such concessions were apparently regarded as irrelevant to the Government in its notice requiring Health Boards to put contracts out to tender.

The longer term consequences of such policies, and their methods of introduction, will be far more significant than the current industrial action. Some Health Boards only agreed under duress to put contracts out to tender, and sought full and detailed discussions with employees' representatives. Others believed the priority was to undertake private discussions with potential contractors and did not discuss either contracts or possible staff reductions with staff. This cannot augur well for the future levels of motivation, morale and co-operation between management and staff. There is much to suggest that the Health Service is suffering from a surfeit of change, and weariness and poor morale are contributing to problems of staff turnover and to further pressures on the service.

It is clear that some unit managers regard the requirment of competitive tendering as counter productive and as generating inefficiency and bad employee relations. Others would seem to believe in the merits of competitive tendering and a 'macho' management style in the Health Service. Irrespective of such differences there seems to be a contraction in the Minister's view that linking managers' pay to performance is an important step in maintaining the mementum for improvements in efficiency and the delivery of services, but at the same time, Boards should be subject to restrictions on paying incentives to staff for improved performance.

Low morale and motivation is equally discernable within education. Cutbacks and retrenchment feature at several universities and colleges. Within the primary and secondary schools scheduled for closure there are major difficulties in maintaining morale. The pace and scale of closures raises serious questions as to the durability of the current no compulsory redundancy agreement.

Potentially the biggest changes to employment levels and conditions arise from the requirements of competitive tendering within the local authority sector. Irrespective of the extent to which services are taken over by private organisations there is every likelihood that established wage and salary differentials and rates will change. The experience of privatisation south of the border would suggest that the breakup of established bargaining units and traditional comparabilities will be inevitable. Irrespective of th political questions and conflict over the act of privatisation small local stoppages will be a feature as the implications of competitive tendering work through the system.

Elsewhere single union and greenfield site agreements continue to pose questions for the trade union movement. The announcement that the new paper mill at Irvine is to be organised by the EETPU led to much criticism from SOGAT and to questions as to problems in the future.

Regional Review

REGIONAL LABOUR MARKETS

The unemployment rate and total continued to fall during the final quarter of 1987 and by mid-December the unadjusted total including school leavers stood at 324,007, a fall of 41,210 (11.3%) over the year. The corresponding "narrow" rate was 14.5% compared with 15.9% in 1986. As was noted in the last Commentary, the strength of the fall in unemployment is evidenced by the fact that the total has fallen in each of the mainland regions and the island authority areas (Table 1). Shetland recorded the largest decline of 20.7%, with the greatest fall among the mainland regions being in Grampian at 16.6%. These figures reflect the marked recovery in both areas from the temporary downturn in economic activity during 1986. In all, 9 of the 12 areas witnessed a fall in unemployment in excess of 10% in the year to December.

Table 1 Unemployment by region

	% rate Dec87	Total Dec 87	Total Dec 87	Total change	% change in total
Borders	8.5	3298	3298	-599	-15.4
Central	15.3	16312	18781	-2469	-13.1
Dumfries & Galloway	12.2	7011	8286	-1275	-15.4
Fife	14.8	20184	22254	-2070	-9.3
Grampian	8.6	19771	23705	-3934	-16.6
Highland	15.3	13455	14817	-1362	-9.2
Lothian	11.7	42491	47220	-4729	-10.0
S/clyde	17.1	175008	195883	-20875	-10.7
Tayside	16.5	22801	26171	-3370	-12.9
Orkney Islands	12.9	871	951	-80	-8.4
Shetland Islands	7.1	712	898	-186	-20.7
Western Isles	20.9	2093	2354	-261	-11.1
Scotland	**14.5**	**324007**	**365217**	**41210**	**-11.3**

Source Department of Employment

The Western Isles continued to have the highest unemployment rate, 20.9%, while among the mainland regions Strathclyde retains that distinction at 17.1%. Although it has risen slightly, from 8.3% to 8.7%, the rate in the borders remains the lowest on the mainland, slightly below Grampain, 8.6%, which is quickly returning to the relatively low levels experienced prior to 1986.

If further evidence of the widespread and substantial nature of the fall in unemployment is required, it is provided in Table 2 which outlines the separate trends in male and female unemployment across the regions. The totals fell for both sexes in every region and island authority area, the female figure falling by 13.6% and the male one by 10.3%. Although the male rate continues to decline more slowly, the relative speed of male unemployement decline has quickened since September when the repective male and female declines were 6.6% and 12.2%. For women, the largest fall occurred in Borders, 22.9%, while for men the greatest reductions occurred in Grampian, 16.9% and Shetland 23.1%.

Table 3 presents information on vacancies notified to Job Centres and Careers Offices. Notified vacancies represent only around one third of the total vacancies on offer at any given time and typicaly these are vacancies for less skilled and lower paid jobs. The total number of notified vacancies in December 1987 was 21,252, an increase of 2,273 (12.3%) over the previous years. Of these 19,643 (7.6%) were for places on the Manpower Sevices Commissions Community Programme. These figures compare favourably with the position in September of 1987 when 14.6% of vacancies were for the Community Programme. The unemployment-vacancy (U-V) ratio provides an indication of how many registered unemployed people are competing for each registered vacancy. Overall, the current U-V ratio stands at 15.2 compared with 19.8 in December of 1987 and 13.3 in

Table 2 Unemployment by sex and by region

	Number unemployed Dec 1987		Change since Dec 1987	
	Males	Females	Males	Females
Borders	2180	1118	-10.9	-22.9
Central	11103	5209	-15.2	-15.1
Dumfries & Galloway	4570	2441	-16.3	-17.8
Fife	13175	6503	-8.3	-12.6
Grampian	13175	6596	-16.9	-16.0
Highland	9036	4419	-8.3	-11.0
Lothian	29908	12583	-8.7	-13.0
S/clyde	126650	48583	-9.6	-13.3
Tayside	15352	7449	-12.1	-14.4
Orkney Islands	592	279	-4.4	-16.0
Shetland Islands	429	283	-23.1	-16.8
Western Isles	1553	540	-13.6	-2.9
Scotland	228229	95778	-10.3	-13.6

Source Department of Employment

Table 3 Registered vacancies* and unemployment vacancy ratios, by, region, December 1987

	Vacancies		CP vacancies as % of total	U/V ratio	
	Total	Excl CP**		Total	Excl CP
Borders	420	383	8.8	7.9	8.6
Central	1373	1232	10.3	11.9	13.2
Dumfries & Galloway	526	448	14.8	13.3	15.6
Fife	1173	1018	13.2	17.2	19.8
Grampian	3189	3077	3.5	6.2	6.4
Highland	654	581	11.2	20.6	23.2
Lothian	3380	3017	10.7	12.6	14.1
S/clyde	10537	8924	15.3	16.6	19.6
Tayside	935	761	10.9	24.4	30.0
Orkney Isles	56	56	-	15.6	15.6
Shetland Isles	81	68	16.0	8.8	10.5
Western Isles	130	78	14.0	16.1	26.8
Scotland	**21252**	**16643**	**7.6**	**15.2**	**16.5**

* Unfilled vacancies at Jobcentres and Careers Offices

** Community Programme

Source: Department of Employment

September. On the assumption that notified vacancies represent around one-third of the total this indicates that at present there are around five unemployed Scots competing for each available job. Unsurprisingly the ratio varies across the regions with "prosperous" areas such as Borders and Grampian having U-V ratios of about a half or less than a half of the Scottish figure. These regions also have the lowest proportions of notified vacancies accounted for by Community Programme places. At the opposite end of the scale, Tayside has a U-V ratio of 24.4, with 10.9% of its vacancies being for Community Programme places while in Strathclyde the U-V ratio is 16.6 with 15.3% of "jobs" being on the Community Programme.

Tables 4 and 5 present information on the intra- and inter- regional vacancies in unemployment within Scotland. Just as Scottish unemployment patterns can and do behave differently from those of the rest of the UK, so too the regions and sub-regions of Scotland experience differential trends in unemployment. Regions, of course, are political of administrative units (perhaps historical ones) rather than coherant and homogeneous eonomic groupings. However, Table 4 and 5 are concerned primarily with Travel-to-work-areas (TTWA's) within regions. A TTWA is an area within which 75% of employees reside and 75% of residents work, and this, at least, provides some basis for comparisons.

The middle column of Table 4 allows the identification of those regions within which there are above and below average concentrations of unemployment. Thus it is clear that above average unemployment is widespread in Strathclyde region where 10 of the 12 TTWA'S have rates in excess of 14.5%. Similarly, Highland region has a marked concentrations of unemployment. Thus, it is clear that above average unemployment is widespread in Strathclyde region where 1 of the 12 TTWA's have rates in excess of the 14.5%. Similarly, Highland region has a marked concentraton, with 6 of its 8 TTWA's recording above average unemployment. In contrast, there are no TTWA's in the Borders with unemployment rates in excess of the

Table 4 TTWA in regions with unemployment rates above the Scottish and regional average

	No of TTWA	No above Scottish average	No above regional average
Borders	5	0 (0)	3* (2)
Central	3	2 (2)	2 (2)
Dumfries & Galloway	7	3 (3)	4 (4)
Fife	3	1 (2)	1 (1)
Grampian	9	2 (2)	8 (8)
Highland	8	6 (3)	6 (4)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	10 (9)	7 (8)
Tayside	7	1** (2)	1 (2)
Scotland	57	(24)	

* The Hawick rate is equal to the regional rate

** The Dundee rate is equal to the Scottish rate

Source Department of Employment

Table 5 TTWA with highest and lowest unemployment rates

		%	High -Low	High -Low
Borders	H Berwickshire	12.3	5.4	1.78
	L Galashiels	6.9		
Central	H Alloa	19.0	7.0	1.58
	L Stirling	12.0		
Dumfries & Galloway	H Cumnock & Sanquhar	27.3	17.7	2.84
	L Dumfries	9.6		
Fife	H Kirkcaldy	16.2	5.1	1.46
	L North East Fife	11.1		
Grampian	H Forres	20.6	13.5	2.90
	L Aberdeen	7.1		
Highland	H Skye & Wester Ross	22.7	11.5	2.03
	L Thurso	11.2		
Lothian	H Bathgate	16.2	7.4	1.84
	L Haddington	8.8		
Strathclyde	H Girvan	26.0	12.1	1.87
	L Oban	13.9		
Tayside	H Arbroath	19.5	93	1.91
	L Perth	10.2		

Source Department of Employment

Scottish figure. Turning to intra-reional comparisons, the final column of Table 4 permits the identification of the degree of concentration of unemployment within regions. Thus, in Grampian where 8 of the 9 TTWA's have rates in excess of the regional average, it is clear that low unemployment is confined to one TTWA only (in this case Aberdeen). The opposite case is represented by Tayside, where only one TTWA has a rate greater than the regional rate (Arbroath). Finally, Table 5 examines the highest and lowest rates within each region. The last column provides a measure of the disparity within each region. This shows that unemployment is relatively evenly distributed in areas such as Fife and Central and more variable in Dumfries and Galloway and, to a lesser degree, Highland. Cumnock and Sanquhar and Galashiels remain, respectively, the TTWA's with the highest and lowest unemployment rates at 27.3% and 6.9%.