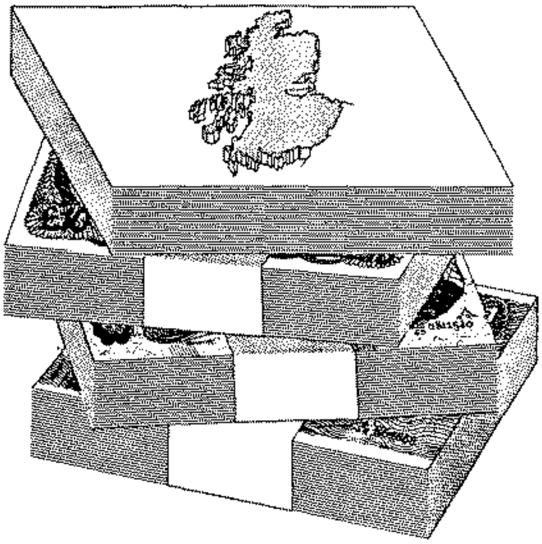
The Scottish Economy

Industrial Performance



A NOTE ON THE REBASED INDEX OF PRODUCTION AND CONSTRUCTION

This edition of the Commentary contains the first set of figures derived from the rebased index of production and construction. These are based on 1985 = 100 rather than 1980 = 100. However, the rebasing involves much more than simply setting 1985 as the base year, and the purpose of this note is to highlight some of the issues raised by the rebasing. A forthcoming Industry Department for Scotland statistical bulletin will explain the changes in full detail.

The rationale for regular rebasing of the index lies in the fact that, as time goes on, the underlying economic relationships on which the index is based change and become less representative of the true position. This is because the overall index is a weighted average of 269 individual industry series, with the weights being derived from Census of Production data on value added by each industry. Clearly the extent to which industries' value added contributes to overall gross domestic product will change through time, and the new index reflects these contributions (the weights) as at 1985 rather than 1980. Thus the construction industry for example, now contributes 20.1% of the total index compared with its 24.1% in the 1980 = 100 index.

However, re-weighting is not the only change which has been introduced. The Industry Department for Scotland has also taken the opportunity to alter (and, they argue, improve) the data on which the index is based. For example, the employment thresholds at which companies enter and leave the data set on which the index is based have been altered, a move which is designed in part to reduce the level of "imputed observations" (ie. guesswork) involved in the analysis. In the latter stages of the 1980 = 100 index up to 25% of "observations" in the data set were actually imputed from the performance of other companies. In addition, changes have been made in the method of dealing with companies which operate both north and south of the border. Previously a company would be included in the Scottish data set if more than 80% of its UK output originated in Scotland; if less than 80% of output originated in Scotland the company would be sent a voluntary questionnaire relating to its Scottish output (if Scottish employment was above some minimum level). This could result in several sources of error:

(i) a company which has 81% of its output originating in Scotland would have its total value added included in the Scottish index;

(ii) if the proportion of Scottish-originated output in such a company markedly altered through time (eg. fell from 90% to 30%) this change would not be reflected in the index;

(iii) companies which failed to respond to a voluntary questionnaire would he excluded from the analysis, despite having a potentially important Scottish element in their output.

Little can be done about the third problem, with the exception of more persuasion. However, efforts are being made in the new index to cope more adequately with the first and second problems by more accurately reflecting in the index the Scottish element of the output of firms located in the data set.

The acid test of these changes is what effect they have on the index. Using the "old" method of analysis, the overall index of production and construction rose by 6.53% between 1983[1] and 1987; under the new method, and rebased to 1985 = 100, the overall index rose by 4.97% in the same period. By contrast, the rebased index for the UK as a whole indicates that production and construction growth from 1983 to 1987 was 12.68%, not 11.69% as the "old" index indicated. Thus while growth has been revised downwards in Scotland it has been revised upwards for the UK as a whole, indicating that the extent to which Scotland lagged behind the UK in this period is greater than was previously thought.

To a large extent what this really reveals is how sensitive the index is to changes in the way it is calculated; as in most statistical matters there is no "correct" method of calculation. Changes in the base year and alterations to the method of calculation can have even more significance for individual sectors - see Food, Drink & Tobacco below for an example of this.

In addition it should be remembered that the service sector is completely excluded from the index, and that the industries included in the index of production and construction account for less than 40% of Scottish gross domestic product. While the index is an important indicator of economic performance, there are therefore strong grounds for exercising caution in its use.

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1. 1983 is the first year for which the rebased index is available.

BUSINESS SURVEYS

Between them the Scottish Chambers' Business Survey (SCBS) and the CBI's Industrial Trends Survey provide a reasonable guide to current and recent trends in the Scottish economy. Both surveys are carried out on a quarterly basis with results being derived from the responses of Chambers of Commerce and CBI members, respectively. While the two sources are complementary in nature there do exist important differences between them. Whilst the SCBS provides a geographical breakdown of responses, the CBI Survey provides information on trends by size of firm. Also, the CBI survey provides information on sectoral employment patterns, whilst the SCBS distinguishes between male and female employment and between full and part-time employment. Furthermore, the number of respondents to the SCBS is well over twice that to the CBI survey and they cover not only Manufacturing but also Construction, Wholesale Distribution, Retail Distribution and Financial Institutions. The results from the SCBS are therefore open to a greater degree of disaggregation than those of the CBI survey. The SCBS was carried out between 9 January and 8 February, and the results refer to the quarter ending 31 December 1988.

Manufacturing respondents to the SCBS are, in general, more optimistic about their general business situation than they were three months ago. This optimism is underpinned by a strong growth in output and orders, which is generally expected to continue over the coming quarter. Employment and investment intentions fully reflect these buoyant conditions. Respondents expect both to authorise more capital expenditure and to create more jobs.

There are two aspects of these trends which augur well for the government's attempt to cool-down the domestic economy. First, much of the growth in order and sales continues to come from exports, despite the appreciation of sterling which occurred in the last quarter of last year. The recent slide of sterling cannot to have influenced respondents answers. To the extent that domestic demand does contract in the face of higher interest rates, the healthy performance of exports should at least partly redress the external deficit.

Secondly, there is no evidence in either the SCBS or CBI manufacturing returns that investment intentions have been adversely affected by the steep rise in interest rates which occurred last year. This suggests that part of the external deficit may at least be attributable to imports of investment goods which should hopefully be eventually self-financing. In the SCBS +21% of manufacturing firms have revised their investment intentions upwards and +9% of respondents to the CBI Survey intend to authorise more capital expenditure in the coming twelve months, than they did last year. Respondents to the CBI Survey do not consider that the cost of financing investment expenditure as a constraint on their plans. Concerns, therefore, that investment may have been adversely affected by increased finance costs are not borne out by the experiences of the CBI's Scottish manufacturing respondents. Additionally, there is now mounting evidence, from both SCBS and CBI surveys, that *capacity constraints* are beginning to bite for some manufacturing activities. To, the extent, therefore, that growth in orders and output can be sustained, prospects for investment appear reasonably good.

The SCBS Survey suggests some divergences in manufacturing fortunes across regions. Respondents from Glasgow and Edinburgh chambers claim to be more optimistic than their counterparts in Aberdeen and Dundee. However, examination of the underlying expected trends in new orders and volumes of sales, reveals surprising uniformity. The 'headline' figures on business optimism may, therefore, to some extent understate the actual level of buoyancy in the sector.

The CBI Survey, which is less optimistic about the outlook for Scottish manufacturing than the SCBS, provides additional information on sub-manufacturing activities. Whilst engineering sectors are in confident mood, textile respondents are distinctly pessimistic. The outlook of respondents from Chemicals and Metals is more or less unchanged. The factors which lie behind these contrasting fortunes are too complicated to unravel here and it should not be forgotten that the CBI sample size in Scotland is small. Nevertheless, it would appear that the Textile sector's problems may emanate, at least in part, from an exchange-rate level which makes it difficult for Scottish producers to maintain international price competitiveness. The recent depreciation of sterling is likely to bring only small relief to textile producers. To the extent that Scottish textile manufacturers are attempting to compete in the same markets as newly industrialised countries, their underlying cost disadvantage is likely to endure.

It is retail activity which we would expect to experience the most immediate retrenchment if the Chancellor's policies succeed. Last year's steep rise in interest rates were aimed directly at putting the brakes on the phenomenal increase which had taken place in personal sector expenditure. However, especially in Scotland, it is still too early to assess what the medium-run effects of the policy are likely to be. Whilst the housing market in other areas of the United Kingdom appears to have responded quickly to the increase in interest rates, the Scottish market remains relatively buoyant. To the extent that house price appreciation and the associated *accumulation of non-human wealth* stimulates consumption, it may be some time before retail activity in Scotland feels the effects of the increase in interest rates.

The tension between the possible effects of a buoyant housing market and increased financial charges on the retail sector is partly reflected in the responses to the SCBS. Retailers are less optimistic about their general business situation than they were three months ago. This is notable because the retail sector has been consistently one of the most optimistic about its business prospects. On the other hand, there is certainly no sign of a collapse of confidence. A balance of only - 7% are less optimistic.

The shift in the balance of retail confidence is, of course, likely to reflect retailers' expectations of what increased finance changes are likely to mean for consumption, but it may also echo an element of post-Christmas retail blues. Although respondents are asked to exclude seasonal factors in responding to the SCBS, it would be unrealistic to believe that they could completely exorcise all such transitory influences.

Notwithstanding their declared more bearish outlook, retailers still expect their volume of total sales to continue on its upward trend. A balance of +62% of retail respondents expect their sales volume to increase, and although this is 14% down on the same figure for the last three months, it would be difficult to characterise retail activity as depressed on this basis of this, admittedly narrow, statistic. Neither do retailing investment intention indicate any real bearishness amongst respondents. A balance of +34% of respondents expect to authorise more investment in premises in the next quarter. Taken together, it would perhaps be reasonable to characterise this evidence in terms of a cautiously optimistic rather than pessimistic Scottish retail sector.

To the extent that windfall gains from the introduction of the poll-tax are capitalised in house prices, the impact of increased interest rates on expenditure may be further deferred, as increases in personal wealth feed through to consumption. Additionally, latest retail figures showed a record rise in February further underlining the likelihood that the Scottish retail sector is likely to continue to expand at least over the next three to six months.

Over the longer-term, the growth in retail activity may however slow down. To the extent that the personal sector responds to the savings incentives and exhortations contained in the Chancellor's budget statement consumer spending will be hit. Additionally, demographic influences may now be working in favour of an increase in personal savings as a large population cohort is about to enter 'middle age'. This is a period of life when savings are typically at their highest.

The SCBS returns by the wholesaling sector are not dissimilar from those of the retailing sector: There is a general drop in business optimism, a negative balance of -10% of respondents claiming that they are less optimistic than they were three months ago. Since optimism in this sector has increased over the last seven quarters this represents an apparently radical departure from earlier trends. Although wholesale sales figures in the past three months did not live up to wholesalers' expectations, there is nevertheless a general expectation of increased sales. Moreover, there is also a uniform trend of increased employment and investment in premises, although on a more modest scale than in the recent past.

Scottish financial institutions report that they increased their advances to both the personal and corporate sectors in the final quarter of 1988. The increased trend in advances to the corporate is expected to continue in 1989, though advances to the personal sector are expected to moderate. Consistent with other indicators, financial institutions expect a substantial proportion of increased corporate credit to be used to finance investment.

Respondents from the Construction sector to the SCBS continue to be optimistic about their general business situation. A positive balance of +22% of respondents are more optimistic than they were three months ago. Construction respondents expect an increase in order from both public and private sectors, and Construction employment is expected to continue on its upward trend. Although the demand for new housing may be adversely affected by increases in mortgage rates, increased house prices should make construction activity more profitable.

Primary

AGRICULTURE AND FORESTRY

One measure of the strength of the agricultural sector in Scotland is given by the trend in farm incomes. The 1989 Annual Review of Agriculture shows that Scotland has fared rather better than the rest of the UK, but that net farm incomes in Scotland fell, even so, by 2.5% in real terms to £162 million in 1988. Taken against a 1978 base year index of 100, real farm income was 65 in 1988. This should be compared with a post war low of 12 in 1985. The UK index, meanwhile had fallen to 43 last year from the same base index.

In terms of gross output, Scottish farming produced £1,429 million, a nominal increase of £42 million. Within this total, livestock increased (by £54 million) while crops and horticulture fell (by £29 million).

Cattle prices rose during the year, and lamb production increased; pig meat prices were depressed for much of the year. Other features of Scottish agriculture in 1988 include:

- Milk production fell in line with quota arrangements, but value was maintained by price rises. There seems to be little if any prospect for Scottish milk quota to rise in the near future, despite shortages of Scottish milk causing problems to the quickly expanding Scottish Cheddar industry.

- Poultry meat production expanded in 1988.

- Egg production was hit by lower prices even before the salmonella-induced prices affected the market.

In terms of the prospects for 1989, experts foresee some serious problem areas. Arable incomes, which fell by one-third last year, may fall by 50% in 1988/89. Big losses on pig and poultry farm in Scotland may also occur.

Mr Ian Grant, President of the Scottish National Farms Union stated in January, "Employment, long term investment and incomes are falling in

Scottish agriculture. We are renewing our demands for a change of tactics before irreparable damage is done".

Changes in farm income are largely attributable, of course, to changes in Common Agricultural Policy (CAP) regulations. Although changes may be undesirable to Scottish Farmers, it should be remembered that from the point of view of agriculture as a whole in the EEC, major imbalances have developed between supply and demand. Supported prices have maintained farm viability at the margin, whilst improved technologies have dramatically increased yield.

The EEC approach appears now to be systematically attempting to redress major supply and demand imbalance. In the near future, far reaching changes will gradually abolish the variable sheep and beef premium, and support for dairy production is likely to fall. For small farmers, crofters and hill-farmers, operating on very tight margins, such changes are particularly difficult. A serious problem exists between the conflicting objectives of, on the one hand having an efficient agricultural sector of an appropriate size, and on the other hand, having a rural economy in which traditional activities can be allowed to flourish.

Against this rather pessimistic background, diversification is being widely canvassed as a sensible basis for future strategy in the agricultural sector. As shown in previous issues of the Commentary, the "set-aside" and "farm woodlands" schemes represent two policies designed to stimulate diversification. Many farmers in Scotland feel, however, that these schemes promise no real alternative to farming in terms of income generation, and believe that neither the UK government nor EEC Commission have developed a coherent diversification policy. As a result, a major exhibition is to be organised in November by the SNFU and the Royal Highland and Agricultural Society of Scotland (with the backing of the SDA and HIDB) to examine the options available to farmers.

The diversification schemes have shown some success, as figures in the previous Commentary demonstrated. Some farmers are very pleased with the opportunity to plant hardwood trees, subsidised in the process. One such farmer wrote in the Scotsman (27.12.1988) "About 30 years ago, I wrote and article for the Scotsman in which I said that up to 10 per cent of our farm land could go under trees without cutting down our agricultural production, if only Government would find such a scheme".

For Britain as a whole, the set-aside scheme has had a rather lukewarm reception, the grant level being too low to provide real incentives to change behaviour. However, for farmers in Northern Scotland, many of whom have severe financial problems, set-aside has come as a lifeline. On a 250 acre arable farm, for example, if the full 90 acre of combinable crops had been set-aside, a probable loss of £1600 would have been turned into a profit of £3,700. For marginal farmers, thinking about selling their land, this can represent a factor preventing the need for that sale.

Finally, several calls have been made recently for the introduction of a proper co-ordinated land use planning scheme for Scotland. The rural economy is under considerable pressure, and going through several very rapid changes (such as, forestry planting, farm diversification, fishing industry changes, collapse of income, land ownership changes on a major scale); regulation of these processes is very piecemeal.

FISHING

Recent issues of the Commentary have pointed to the problem of diminishing stocks of certain species of fish in the waters around the British Isles. Fisheries are examples of what economists call "common property resources", such resources have no property right established, or such rights are vaguely defined and difficult to enforce.

It is well known that common property resources are likely to be over-exploited in a market economy, and that in the absence of co-operation between all potential fishermen, some form of regulation may "improve" the outcome. For fishing, territorial limits and fishing quotas are example of commonly applied regulatory techniques.

In December 1988, the EEC announced large reductions in haddock catch quotas, designed to conserve North Sea Stocks. The quotas for British vessels, most of which are based in Scotland, have been cut by 65%. However, because boats were usually unable to catch their previous full quota, the cut in actual allowable catch is likely to be around 30% of 1988 landings.

These allowable catch reductions were not as severe as they might have been because Britain's share of the total catch has been increased from 78% to 87%; this is a result of the recognition built into the Common Fisheries Policy of the economic importance of haddock to Britain.

What makes these quota reductions particularly difficult is the fact that a considerable number of new vessels have come into the Scottish fleet in the last five years under the current government licensing policy. In terms of income, Mr Robert Allan, Chief executive of the Scottish Fishermen's Federation, believes the new regulations could cause a loss of income in 1989 of around £45 million, affecting about 700 Scottish vessels.

The problem of overfishing is made particularly difficult to deal with by the scarcity of good information. It is difficult to know trends in fish stocks, and their rates of increase or decrease, until considerable time periods have passed. This can mean that action is taken too late, as applied to herring stocks in the 1970's; and "late" action will inevitably be far more drastic than if good information could have been acted upon earlier.

If government (or international bodies such as the EEC) make significant changes in allowable catches from year to year, an interesting question concerns whether the regulations should compensate fishermen for loss of income. One point of view was expressed recently by Mr John MacGregor, the Agriculture Minister , who said that he had checked on past practice and that "there never has been compensation for the fact the fish aren't there." Some form of automatic compensation exists of course; market prices will tend to rise in times of excess demand, which will tend to compensate for smaller landings. It is unclear whether such compensation is likely to be anywhere near complete, however.

An alternative perspective suggests that piecemeal regulation is the least desirable of all responses; such a view would argue that if government sets quotas and manages the issue of licences, the 'package' of policies should be complemented with some form of income support. This would recognise the particular uncertainties confronting the fishing industry that are not faced by other parts of the agricultural or manufacturing sectors.

Another argument to support compensation is based upon the regional importance of fishing to several parts of Scotland. Fishing is the predominant industry in several areas; changes in the fortunes of the industry can have dramatic 'knock on' effects that cannot be compensated for by improved fortunes in other industries, as the structure is heavily specialised.

February 1989 has seen the EEC begin legal proceedings against Britain for, it is claimed, overstepping its quota of several species of fish - particularly North Sea mackerel, hake, cod and plaice. The EEC has no sanctions - other than moral - which it can use against a member, but future negotiation for quota shares are likely to suffer if such charges are made to stick. What is clear is that Britain is by no means the only culprit, or even the worst; indeed its control mechanisms are acknowledged as heing as strong as any in the EEC.

An important "downstream" activity of fishing is, of course, the fish processing industry. In December 1988, the SDA announced plans to invest £9m of public money in a project to modernise and revitalise its fish processing industry in Aberdeen. It is hoped to match this public investment with an equal sum from the private sector. An indication of the importance of this industry can be gained from an estimate (made by the SDA) that the fish processing industry comprises over 160 firms in Aberdeen, employing more than 2,800 workers.

A number of developments have occurred concerning fish farming since the previous issue of this Commentary.

Firstly, in February 1989, the Nature Conservancy Council published a report entitled "Fish Farming and the Safeguard of the Natural Marine Environment of Scotland." The report shows some concern at the "sheer speed" of new developments - 600 licence application received in the last two years - and urges more consultation and the implementation of a more integrated and coherent policy towards this rapid growth sector.

The report suggests that present consultation procedures, operated by the Crown Estate Commissioners, do not give adequate weight to conservation interests. It also argued for the introduction of industry codes of conduct, with action taken on the lease held by any transgressors.

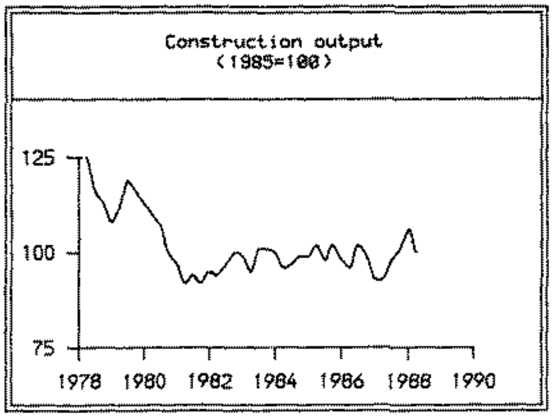
The annual conference of the Scottish fish farmers in February discussed a number of issues. Of much importance is the recognition that fish production has outstripped the development of the marketing, transport and communication and distribution facilities associated with the industry; these will need to be developed if the industry is to develop its potential. Similarly, much more attention needs to be devoted to assessing market potential and exploiting available opportunities. It is clear that attention is now being devoted to developing the post - farming components of the industry.

The same conference also heard evidence that seafood consumption appears to have desirable effects upon health. In a period when the health and safety aspects of diet have become much debated, this is important to the growth of the industry itself.

Construction

The rebasing of the index of production and construction to 1985 = 100 means that more caution than normal must be exercised is interpreting the basic figures. The construction index for the second quarter of 1988 stood at 100.7 on the revised base; while considerably down on the first quarter's figures this nevertheless represents an increase of 8.2% in construction activity over the corresponding period in 1987. Compared with Scotland's 100.7 the UK index for the second period of 1988 was 115.9, a disparity commented upon on numerous previous Commentaries.

Much, but by no means all, of the construction boom in the south of England has come from the private housing sector, where there may at last he some sign of a slow-down in activity. Recent rises in mortgage rates have done much to slow the rate of house price inflation in the south-east, which will eventually filter through to construction activity. However, in the short run housebuilding activity remains buoyant both in Scotland and the rest of Great Britain. Figures from the National House Building Council indicate that applications for dwelling starts rose by 40% in Scotland during 1988 to 14,300, while the figure for Great Britain rose 15% to 223,000, almost three times the level of 1980. During the same period NHBC dwelling completions in Scotland rose 16% to 13,000, while GB completions rose 11% to 203,000.



However, recent buoyancy in the Scottish construction sector is not based simply on housing. Scottish office figures on contracts obtained by contractors indicate a rise of 7.8% in the first nine months of 1988, compared with the comparable period in 1987. The total (nominal) value of contracts received during the period was £1309M. As usual, there were substantial variations between individual sectors of the construction industry. In the public sector, health contracts are running at £83.8M for the first nine months, over four times the level of 1987. By contrast spending on roads has more than halved, from £191M to £87M. Overall, public sector orders rose by 3.4% while private sector orders rose by 11.0% over the corresponding period in 1987.

While still optimistic, the latest Scottish Chambers' Business Survey is noticeably less bullish than its immediate predecessors. A net 23% of respondents were more positive about the general business situation than they were three months ago, compared with a net 59% in the October Survey. In the previous Survey a balance of 65% of firms said they expected an increase in new private sector orders in the forthcoming quarter; in fact only a net 16% actually achieved any increase, with central government orders showing a marked downturn. However, respondents remain optimistic about trends during the next three months, with a balance of 21% anticipating further private sector orders.

It is in employment that the difference between this Survey and the previous one is most marked.

Only a balance of 3% experienced an overall increase in employment compared with 73% in the previous survey. Nevertheless, a balance of 44% believe an increase in employment will materialise over the next three months. Whether this will actually materialise or represents a systematic tendency towards over-optimism remains to be seen. The level of capacity utilisation is still high (79%). In the last Commentary it was mentioned that in the October Survey a relatively high proportion (55%) of firms had stated that a lack of skilled labour was now acting as the principal constraint on output. In the latest survey this figure remains relatively high at 46%, well in advance of the steady 20% experience over the last two years. It should be pointed out that according to the Building Employers' Confederation state of trade enquiry for February, recruitment difficulties experienced by Scottish construction firms are running at about half the level of the UK as a whole. Nevertheless, the apparent worsening of the skills bottleneck in Scotland over the last two quarters is an unwelcome sign just as the industry begins to show real signs of sustained recovery.

Work on Glasgow's planned new concert hall resumed late in February after a hiatus caused by the sacking of Whatlings, the original contractor for the building's mainframe. Melville, Dundas & Whitson and R J McLeod (Contractors) have now undertaken to do the work originally assigned to Whatlings. Despite re-starting around eight weeks behind schedule, hope is still being expressed that the building would be available for use during Glasgow's tenure as European City of Culture in 1990.

Construction firms will doubtless find encouragement in recent news on local authority spending limits. Scottish local authorities are to be allowed to spend an extra £63M in capital projects over the next financial year, an increase of 16% over last year: borrowing limits overall therefore rise from £395M to £458M. Roads and water and sewerage show the largest percentage increase, 25% and 24% respectively, with the education allocation rising 11% to £62M. A fair proportion of this increase in spending limits should find its way to the Scottish construction industry, although the Convention of Scottish Local Authorities has warned that future years might see a tightening of spending limits.

Energy

OIL AND GAS

The December figure for the Royal Bank/Radio Scotland Oil index stood at 129.5, 16% lower than December 1987 (1980 = 100). The average daily output for December was 2.13 million barrels, with the last week being marred by the loss in production from the Fulmar, Auk and Clyde fields. In the last 6 months of 1988, output was down by 14% on the same period for 1987.

In 1988, the average daily value of oil produced in the UK was £19.4 million compared with a 1987 average daily value of £28 million; representing a drop of more than 30%. The main reason for this being the 26% fall in the price of Brent crude oil. The estimated production for 1989 is 2.22 million barrels; 11% down on 1987, which was the last untroubled year of production. Also, the Royal Bank has forecast a weakening of oil prices in 1989.

During 1989, seven new developments are expected, and these should go some way towards offsetting the decline in production caused by the Piper Alpha disaster, which is estimated to cost the UK balance of payments £300 million in 1989. Despite this, the industry is showing signs of recovery. A further 60 fields are forecast to be developed over the next 25 years. There were also 4000 more oil related jobs in Grampian Region last year compared to 1987. A £120 million development in the Emerald oil field by the Sovereign Oil and Gas Company is expected to bring 600 jobs to Dundee and 250 jobs to Aberdeen.

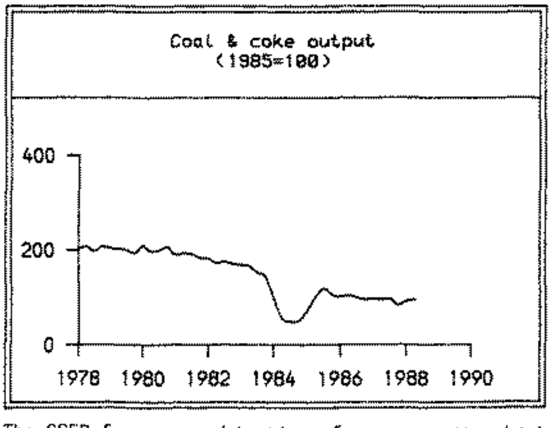
Despite the protests, Shell UK have been granted permission for their controversial proposal to increase the natural gas liquids capacity at the Mossmorran plant in Fife by more than 1 million tonnes per year. The expansion plan will cost around £100 million and could bring around 900 construction jobs to the complex. Objections were voiced from local communities lying between Burntisland and Dunfermline. Both Dunfermline and Kirkcaldy District Councils objected to the proposals on safety grounds. Shell also won a major battle over their rates bill for the Mossmorran complex, reducing their contribution from £13.6 million to £8.4 million.

Last year, British Gas supplied a record number of therms (7,158,00) in one day. They are strong in the domestic, commercial and industrial fields. It is estimated that 47% of natural gas supplied in Scotland goes to the industrial and commercial users. On the domestic side, there are now more than 750,000 Scottish homes with gas central heating.

Cairn Energy of Edinburgh, the oil and gas exploration and production company has bought CP (Oil and Gas), a private based Edinburgh company whose main interest is gas in Pennsylvania. The deal cost £7.5 million.

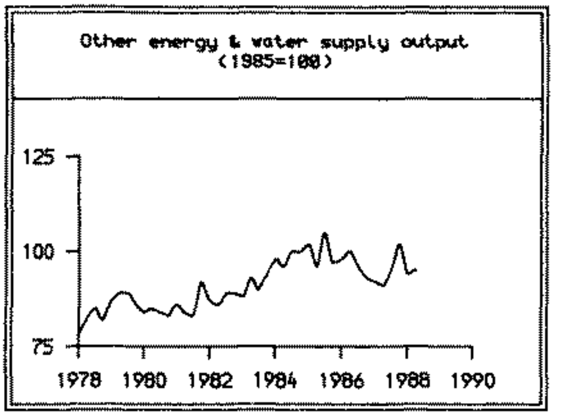
COAL, ELECTRICITY AND OTHER ENERGY

The events leading up to the privatisation of the Scottish electricity supply industry, which could occur as early as 1990, dominate both the electricity and coal industries and have repercussions outside the energy sector. In particular, the fuel strategy adopted by the South of Scotland Electricity Board (SSEB) has extremely serious implications for the Scottish deep-mined coal sector.



The SSEB faces a combination of overcapacity, high capital charges and interest rates and uncertainty as to future nuclear costs. The coming on stream of the Torness nuclear reactor, together with the installation of gas turbines at Peterhead to utilise sour gas from the Miller Field, have dramatically increased base-load capacity with low running costs. The intention is for the coal-fired power stations to be utilised to meet peak-load demand and for export to England. The latter source of demand is uncertain, dependent on both the effectiveness of competition in the post-privatisation English electricity supply industry and on the ability of the SSEB to undercut prices of industry entrants and French imports.

Nevertheless, this strategy underpins both the SSEB's discussions with British Coal (BC) and the investment in an expanded interlink with the English electricity transmission grid. The negotiations between the two appear to be deadlocked, with BC taking court action in an effort to uphold its supply contracts through to the mid-1990s. The hearing is not due until after the SSEB's deadline of March 31st, after which it has stated that it will discontinue taking Scottish coal, unless agreement has been reached.



The SSEB maintains that it requires lower cost coal inputs if it is to pursue its aim of exporting to England. In the absence of cheaper domestic coal, it appears to consider that it can obtain sufficient supplies on the world market to fulfil its secondary role for coal generation. Even if it does use BC coal, this is likely to be on a reduced scale, reflecting its new non-coal capacity. This trend is illustrated by the attempt by SSEB to reduce its Scottish coal intake from its 1987/88 level of 4.7 million tonnes to around 1.5 million tonnes a year. If the court case does result in the SSEB being compelled to buy more than this target, rationalisation will be prevented and over-capacity problems will become more severe. SSEB's excess generating capacity has been estimated at some 40%, with some 20% persisting by the end of the century.

This surplus capacity could lead to considerable difficulties for the privatised Scottish electricity supply industry. Although competition in Scotland will be largely non-existent, at least until much of the overcapacity has been absorbed, the heavy debt burden on the SSEB, arising from the development of Torness and any requirement to maintain surplus capacity, will mean that it could be forced to raise charges as much as the regulatory authorities allow it to. Since the price control formula is likely to include allowances for both inflation and fossil fuel prices, as well as (hopefully) a negative element to represent efficiency improvements, Scottish electricity users will probably not receive the benefits of the low running-costs of Torness over the longer term. Instead, the SSEB could well be forced by market pressure to cross-subsidise its electricity exports from the surplus generated from its domestic market. If major Scottish industrial users of electricity win the right to buy directly from English suppliers, then they too would be able to enjoy competitive prices.

Additional question marks over the privatisation of the two Scottish electricity boards come from the high proportion of nuclear capacity that they both have. The SSEB in particular is concerned about the uncertainty surrounding future costs of decommissioning nuclear plant and about potential changes in government policy towards nuclear energy, especially as regards plant life. While the Government would probably be adverse to providing any guarantee for nuclear costs, Cecil Parkinson has stated that it has established a fund of (very roughly) between £1bn and £2.5bn for this purpose. This is in addition to the 'nuclear levy' that generators will be able to pass on to consumers. A portion of this fund would be anticipated to be available to the Scottish boards, especially if they are early in the privatisation queue. However, the English generating companies have considerable capital charges still to come from current nuclear projects, such as Sizewell B. The cost of capital to the electricity supply industry will increase with privatisation and the removal of the government guarantee.

Meanwhile, as a result of the wrangle between BC and the SSEB, the Scottish deep-level coal industry is staring down the barrel of the gun. All but one deep-level pit is dependent on the renewal of the SSEB contract. The Scottish field is currently the most uneconomic in the UK and BC's current rationalisation programme would almost certainly mean the quick closure of the affected pits. Despite this, BC has offered to purchase Cockenzie power station in order to maintain Bilston Glen colliery. However, this appears a highly unlikely outcome, given the existence of Scottish electricity overcapacity, uncertainty as to the potential for exports to England and the government's position that 'British Coal continues to review its business strategy with a view to reducing its exposure to sectors which shown no satisfactory prospect of contributing to profits in the foreseeable future.' ('Government Expenditure Plans 1989/90 - 1991/92', Chapter 6, Department of Energy, Cm606, January 1989.)

The very next sentence in this report reads 'Its (BC's) market outlook, however, is subject to considerable uncertainty'. The truth of this statement was underlined by the fact that only a month later BC's External Finance Limit, the amount it is allowed to borrow plus its subsidies, was increased for this year and next. The reasons for this included the price squeeze from electricity generators and higher than anticipated interest rate charges. The point at which BC is expected to break even was also postponed. While this is likely to postpone privatisation at least until the tail end of the next parliament, of more immediate significance is the fact that the rationalisation programme has been brought forward. This has already led to the decision to close Barony Colliery, where geological problems occurred but the scope might have existed to open a new face. Given the lower scale of the SSEB's coal requirements, further pit closures could well be forthcoming even if agreement is reached with BC on prices. The development of Frances Colliery also must be placed in doubt.

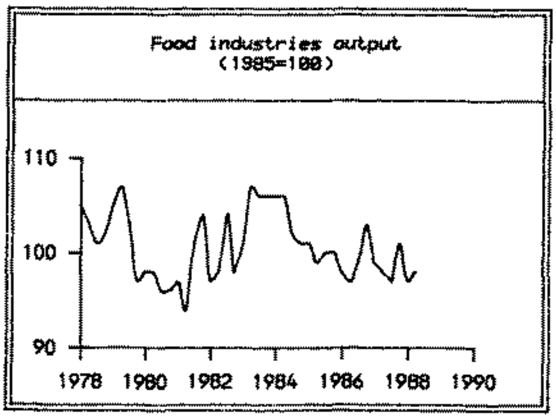
The effects of these events are illustrated by a report that the Fraser of Allander Institute produced in January 1989 for Central and Fife Regional Councils on the potential impact of the closure of Longannet Colliery. The findings were that 3,200 jobs would be lost and that Scottish output would be reduced by over £95 million a year. A major round of coal closures would clearly have a greater impact than this.

Manufacturing

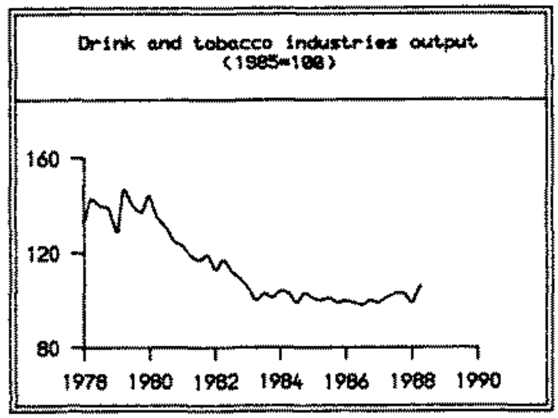
FOOD, DRINK & TOBACCO

The rebasing of the index of production to 1985 = 100 makes little difference to the appearance of the index for the food industry, but does have some cosmetic effect on drink & tobacco. The food index for the second quarter of 1988 stood at 98, exactly tbe same level as the second quarter of 1987; indeed, the food index has scarcely changed since 1985, whereas its UK counterpart has shown (very) modest growth.

The index for the drink & tobacco sector in the second quarter of 1988 stood at 106, 5% higher than the corresponding quarter in 1987. This is apparently pretty well in line with the UK index (standing at 109); however, to a large extent this congruence is an artefact of adjusting the base year of the index from 1980 to 1985. What the index no longer shows is the effects of the massive slump in the drink sector in Scotland between 1980 and 1983 (largely the results of the recession in the whisky industry.) which was not shared by its UK counterpart. The drink & tobacco sector in both Scotland and the UK has been fairly static since then until quite recently, with the result that adjusting the base year from 1980 to 1985 largely removes the disparity in the relative performances of the two sectors in recent times. This appearance is reinforced by the fact that the index has been calculated at 1985 = 100 only as far back as 1983, not 1980. Of course, it should not be concluded that this is some form of "sleight of hand". It can reasonably he argued that, for example, whisky production was unusually high between 1978 and 1980, and rapidly fell to more realistic levels thereafter. Therefore, choosing 1980 as the base year was bound to make subsequent performance seem poor by comparison. Nevertheless, this does illustrate the general point that the choice of base year is of crucial importance in assessing not just performance of a sector through time, but also performance relative to the UK as a whole.



Much more up-to-date information on the food, drink and tobacco sector can be obtained from the results of the latest Scottish Chambers' Business Survey. Respondents are markedly bullish, with a balance of 33% claiming to be more optimistic now about the general business situation than was the case three months previously. This optimism is based largely on the volume of sales and new orders; in the last three months a balance of 49% of respondents experienced an increase in sales. Both home and export orders showed a balance of positive respondents, with exports particularly strong. Encouragingly, growth in both sales and new orders is expected to persist into the next three months.



Employment shows more modest advances. A net 15% of respondents increased total employment during the surveyed quarter, with a balance of 4% expecting to do so in the next three months. Perhaps most encouraging is the evidence on investment intentions; a balance of 39% of responding firms have revised upwards their intended investment in plant and equipment, with a net 27% revising buildings. Capacity utilisation is fairly high (79%) with no evidence of bottlenecks arising from a shortage of skilled labour, plant capacity, or lack of new materials.

As the last Commentary went to press the latest twist in the Belhaven saga developed. Nazmu Virani has now bought back the brewing and distribution parts of the Belhaven empire for £18M - effectively the same company which he sold in Autumn 1986 for £28M. This is the third change of ownership for Belhaven in less than five years. It looks very much like business as usual for the brewing company; the old MD, Stuart Ross, has been re-recruited following his departure during the two-years reign of Raymond Miquel. Mr Ross has in turn re-hired the entire 22-man distribution team at Dunbar who were made redundant by Mr Miquel. The deal by Mr Virani does not, of course, include the Garfunkels restaurant chain purchased by Belhaven as the first step in what was then seen as planned diversification into the leisure industry. Mr Phillip Kaye, who replaced Mr Miquel at Belhaven, remains in charge of Garfunkels.

By the time this issue of the Commentary is published it is expected that the Monopolies & Mergers Commission will have reached a decision on the takeover bid by Elders IXL for Scottish &

Newcastle Brewers, and will have completed its two-year long investigation into the brewing industry. Further comment on both of these issues will take place in future Commentaries.

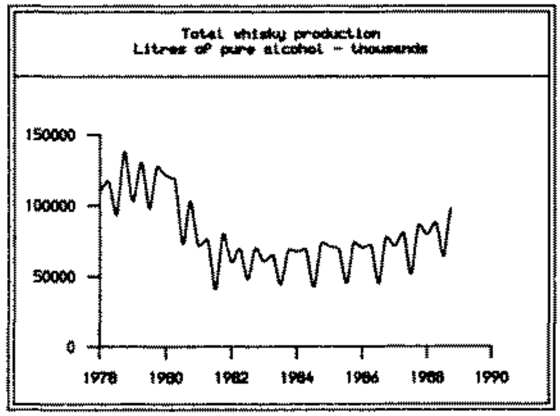
Two food processing firms have recently announced very different news on jobs. The first of these is the decision by Premier Brands to build a £20M processing plant at Arbroath, which also involves the closure and relocation of two other plants owned by Premier. Around 120 new jobs will be created at the plant in the manufacture of microwave products. In addition to these jobs, 220 workers from another Premier fruit and vegetable plant in Montrose are expected to relocate to Arbroath, and another 136 jobs will be transferred from a Fraserburgh fish canning factory. However, few of the Fraserburgh workforce are expected to relocate to Arbroath, leading to an expected loss of around 100 jobs in Fraserburgh.

In contrast to the news from Arbroath comes the decision by Marshall's Chunky Chicken to lay off 239 workers, 60% of the total workforce, from their Coatbridge factory. The company claims that the redundancies are the result of a slump in demand, a contributory factor to which is said to be recent health scares over eggs and chickens. However, regular Commentary readers will remember that the plant also had difficulties last summer when 57 redundancies were announced. The latest round of redundancies will leave a workforce of around 150 at the Coatbridge plant.

Fifteen months ago A G Barr became the UK's largest soft drinks manufacturer when it acquired Mandora St Clements from Mansfield Brewery. Since then Mandora has been rationalised and absorbed into the Barr Group - but not without cost. There were substantial rationalisation and redundancy costs, as well as costs incurred as a result of borrowing the money to pay for the acquisition just before interest rates rose steeply. The result of these costs is that Barr's latest full year results show turnover up 61% to £731M, but pre-tax profit down from £5.3M to £3.3M. However, with Mandora now more integrated and the hope of a better summer than last year these profit figures should represent no more than a temporary blip on Barr's impressive progress.

WHISKY

In terms of exports, by far the most important element of total sales, 1988 was a reasonably good year for Scotch whisky. Exports stood at 245.97m litres of pure alcohol (LPA), a rise of 2.4% over 1987 and the third successive year of export growth. Bottled-in-Scotland blends, which account for two-thirds of exports, rose in line with exports as a whole. As has been the case for several years, bottled malt whisky showed the largest annual rise - 17.7% over the 1987 figure. Bottled malts still account for a tiny fraction of total exports, but spectacular growth in recent years has raised the contribution of malts from 0.9% of total exports ten years ago to 3.4% in 1988.



The whisky industry has come through a period of very severe rationalisation and reorganisation during the mid-1980s, and now finds itself in relatively bullish mood. This mood is reflected in production figures for 1988, which rose almost 14% during the year to 329.9m LPA. Distillers now seem far less worried than they were a couple of years ago about stocks of whisky, because they expect exports to keep rising steadily. However, it is worth making the point that production increases are already far outstripping the growth of sales. Since 1983, when the whisky industry was in the depths of recession, production has risen by 38%, and last year was the first time since 1980 in which the 300m LPA mark was achieved. By contrast, exports have risen by only 8% in the same period, and the home market has been in steady decline. Distillers have a difficult task in forecasting accurately the correct level of production required for some future level of demand, and it is to be hoped that they have got their sums right. This is particularly important in the light of the news that United Distillers, by far the dominant producer in the industry, plans to double its production of malt whisky over the next three years. This will involve an investment of £12m, and may mean reopening up to nine distillers which were closed during the recession of the early 1980s if the expected rise in demand materialises.

Certainly, next month's liberalisation of the Japanese market should provide a major boost for the industry. The last Commentary mentioned several alliances being forged to take advantage of the newly-opened Japanese market, and this process continues apace. In late January the Nikka whisky company purchased the Ben Nevis brand name from the James Burrough Distillers (formerly Long John), and may be interested in buying the distillery itself. If it does so it will be only the second Japanese company to actually own a Scottish distillery, the other being Takara and Okura, who own Tomatin.

Meanwhile two Scotch whisky companies have been busy signing marketing deals with Japanese concerns. Whyte & Mackay, recently acquired by Brent Walker, has signed a long-term deal with Meidi-Ya; a large wholesaler, which is expected to result in rapid growth in the sales of Whyte & Mackay brands in Japan. Almost simultaneously Lang Brothers, one of the few Scottish -owned whisky companies, complete a deal with Mitsubishi reputedly worth £4m to develop two brands in Japan. Both Glengoyne malt and the Langs supreme blend will be imported by Mitsubishi, and the plan is to ensure that Langs Supreme becomes a major brand in the Japanese market. Given the likely importance of Japan to the whisky industry over the foreseeable future, it is probable that other such trading alliances will develop very quickly. In addition, the arrival of more Japanese companies showing an interest in whisky brands and distillers cannot be discounted. Although the major Japanese whisky producers are now much less dependent on bulk imported Scotch than used to be the case, Japanese whisky does not sell well abroad, and Japanese distillers are aware of the attraction of having strong Scotch brands in their portfolio in order to maintain home market share following liberalisation.

In the November 1987 Commentary there was some discussion of the move by North Tayside MP, Bill Walker, to have a law passed restricting the name "whisky" to spirits with a minimum alcohol content of 40% by volume. The pros and cons of the low-strength debate were raised then, and will not be repeated here. However, the whole issue has now taken an international turn with the European Commission agreeing to regulations very much in line with those favoured by Mr Walker. The Scotch Whisky Association was understandably jubilant about the news, arguing that it will do much to protect "real" whisky from cheap imitations. The precisely-named Association of Lower Strength Whisky Producers naturally takes a different view, arguing that their product only exists because there is a demand for it (lower-strength whisky has 7% of the UK blended whisky market), and that both types of whisky could happily co-exist. It is not yet clear what the low-strength product will now be called, or indeed whether the Association will now have to change its name to comply with the new regulations.

Macdonald Martin Distillers have announced excellent figures for the year to 31 December 1988, Turnover rose 14% to £22.7m, while pre-tax profits rose by fully 68%, from £2.05m to £3.43m. However, nearly half of the rise in profits was due to "exceptional" sales of mature whisky from July to December, a reflection of the rapid rise in the price of mature whisky during the last 18 months. The company's principal brand is, of course, the single malt Glenmorange.

METAL MANUFACTURING

This quarter brought the provisional output figures for crude steel production for 1988 published by the International Iron and Steel Institute (IISI). Global production rose to an all time high of 780m tonnes. This is an increase of 120m tonnes on the output levels reached in the trough of the recession in 1982. The growth rate in production for 1988 is estimated to be 6.0%. Ominously, the IISI point out that such growth rates usually foreshadow recessions and point to the fact that this rate exceeds the 5.6% recorded in 1973. OECD steel production has been forging ahead. The growth rate for the industrial countries last year was 8.4% per annum, the comparable figure for the EEC (12) was marginally faster.

Steel output in the UK totalled 19m tonnes. This is the highest figures since 1979 when 21.5m tonnes was produced. Since then the UK has lost considerable capacity. Production was 11.0% higher than 1987 which was itself an extremely busy year for the UK steel industry. Our EEC partners are beginning to recover some of their export markets lost in 1985 when the dollar moved adversely against continental currencies, and many of the major companies' steel activities are running into the black. Thus the shake-out of the European industry facilitated by last year's deregulation of steel markets and the on-going ban on operating subsidies has not taken place. The steel industry is working at higher levels of capacity in most sectors and is becoming increasingly profitable. The question to be answered is whether this can last.

The turn of the year is the forecasting season and this year we have a bumper crop to choose from. The United Nations Economic Commission for Europe (ECE) is projecting a virtual standstill in global terms for 1989. In the EEC, production is forecast to fall by 2% with exports to third countries declining. The OECD is more pessimistic. It sees world growth slackening and thus moderating production in all steel using sectors. Demand in the OECD countries is argued to fall by 3.5% in 1989 from a total of 351m tonnes. The IISI present a similar picture for the coming year. Industry and bank forecasters are confidently predicting a continuation of the boom conditions within the EEC in the first half of 1989. Structural steel for the construction industry is suggested to remain strong during the whole year although there is less optimism for strip products in the second half of the year.

Both the IISI and World Steel Dynamics present medium term forecasts. The IISI project that world levels of steel consumption will rise from 782m tonnes per annum last year to 789m tonnes per annum in 1995. However this growth masks sharp variations. Consumption is set to stagnate in the Western world over this period although consumption is forecast to grow in 1989. World Steel Dynamics predict that the western world will shed 7% of existing steel making capacity by the end of the century and that capacity in LDCs is set to grow by 2.2% per annum over this period. Thus, in all forecasts, there remains a consensus that the steel industry is currently doing exceptionally well in the OECD countries but that this is in the face of adverse long-run trends in consumption which place pressure on both capacity and output.

British Steel continues to prosper. In the last quarter it has rationalised its tin-plate operation in South Wales shedding an estimated 900 jobs. This was described by BS as a normal business decision based on surplus capacity. In the tubes division the Coombes Wood plant is to be closed. BS are still engaged in purchasing stockholders in the UK and on the continent and have recently taken a 34% stake in a Spanish cold rolling mill. The object of the exercise is to use those bases to increase its market share. In Germany, BS are pondering whether to buy Klockner and Co., an industrial conglomerate with stockholding and steel making interests. Klockner & Co wholly owns a network of steel service centres across Germany as well as outlets in several other EEC countries, Asia and North America.

These activities are highly profitable and account, along with scrap trading, for almost half the group's earnings. Klockner and Co have minority interests in two quoted subsidiaries. Klockner-Werke (KW) is a steel producer which recently returned to profit after several years of losses. The firm operates a large coastal strip mill at Bremen which is capable of producing 5.5m tonnes per annum. It makes long products at two smaller works and is estimated to have a crude steel productive capacity of circa 6.5m tonnes per annum.

The steel business accounts for approximately 50% of KW's turnover and a significant proportion of the shares not owned by the parent are held by a Dutch family. Recent selling has left Klockner and Co's share in KW at below 10%. The board of KW is flatly opposed to a merger with BSC and extremely anxious about BS's possible purchase of its trading arm owned by the parent company. BS could pick up Klockner and Co very readily to increase its distribution network. The firm got into trouble in 1988 and was rescued by the Deutsch Bank who are anxious to liquidate their investment. BSC has a credit line far in excess of the asking price of £200m.

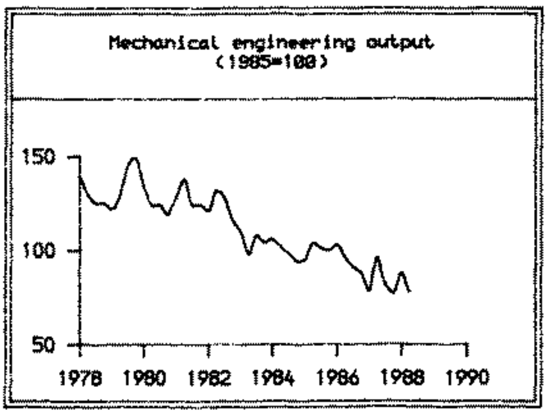
Whilst the attractions of the world-wide network of service centres are evident, it is less clear whether BS would wish to purchase either KW or the other quoted subsidiary which makes tractors and engines. Other German steel makers are said to be considering a counter bid to check BS German ambitions and, given the boards reticence BS would have to settle with the Dutch to stand any chance.

If BS settles for the distribution network this could provide increasing opportunities to market Ravenscraig's output and support a claim for investment in thin slab casting. If BS buys the steel business then this could be problematic for the Motherwell plant as the Bremen works is a large and potentially low cost operation.

Whatever the case, the review of strip products is set for later this year. The Ravenscraig workforce could not have a more favourable set of circumstances within which to form a case. Interestingly, BS, in seeking to take advantage of the weak dollar, is attempting to source flat products from large US producers. BS is working at extremely high levels of capacity and struggling to keep up with demand. It is so confident about this year's outlook that it is increasing prices across the whole product range. This move, combined with continental rises, has led to protests from BRISCC, the steel consumers body and to demands that the protected EEC markets be liberalised with respect to third country imports.

There is little immediate prospect of this. However, BS gives every indication of a business working flat out and with considerable opportunities to advance within Europe via Klockner. Although the long-run trends for EEC production and capacity are adverse, BS could continue to flourish. Forecasts of demand and capacity in strip products for Europe and the UK should be employed, as they were in 1982, to drive the case. Although it still remains an outside chance, BS should be pressed seriously over any attempt to withdraw from strip making in Scotland and the case for thin slab casting strenuously pursued.

MECHANICAL ENGINEERING



The Scottish Mechanical Engineering industry appears to be going through a mixed patch at the moment, with the most recent output indicators telling a fairly negative story, while a more optimistic picture comes from the Scottish Chambers' Business Survey.

The Scottish index of production figures have now been rebased to 1985=100 in line with data series covering the whole of the UK. This will have the effect of reducing the inaccuracy of the index somewhat, as the weights used to make up the index will more closely reflect the industry 'mix' of such comparatively heterogeneous sectors as Mechanical Engineering. On the other hand, care must now be taken not to overestimate sector performance, as 1985 was still strongly affected by the recession.

The provisional output index for the second quarter of 1988 stood at 78 on the new index, a decline of over 18% on the figure for the same period a year earlier. This figure is also well down on the index of 88 recorded for 1988, quarter 1. While the index has been known to dip in this manner and recover subsequently, as a result of short-term fluctuations in recorded sales, this figure remains disquieting. This is partly because of the tendency to over-estimate the provisional figures, as explored in the previous Commentary. A further reason for concern is that, given the 1988 investment boom, mechanical engineering output should have been performing fairly well. The fact that the Scottish industry under performed the rest of the UK emphasises this point. The expectation for the data covering the remainder of 1988 has to be for some improvement, given the improvement in the economic environment.

Industry expectations have remained positive into 1989, with the balance of optimism for the Mechanical Engineering industry strongly positive in the February Scottish Chambers' Business Survey. The survey also showed increased new orders and sales for the final quarter of 1988, together with optimistic expectations for both for the first quarter of 1989. The picture for Scottish orders and sales was, however, considerably more mixed, indicating a continuation of trends toward integration of the Scottish industry with the rest of the UK and on an international scale.

Employment in the engineering and metals sector generally was stable over the year to September 1988 and even showed a modest increase over the last quarter of that period. However, this input measure could well conflate negative trends in the mechanical engineering sector with more positive results from the electrical and construction engineering industries. On the other hand, more recent indications from the Business Survey indicate a more optimistic employment position, with a positive balance of employers both having expanded employment in the final quarter of 1988 and intending to do so in the first quarter of 1989.

One of the problems facing the Scottish Mechanical Engineering industry over the past few years has been the decline in international orders for power station equipment and process plant in general. While the impending electricity supply industry privatisation has put a short term blight and medium term uncertainties on this sector, there are now a number of both positive and potentially negative new developments.

The response to the continued international overcapacity in power station equipment has been the very rapid formation of cross-border joint ventures. The intention behind this has been to position the firms in question to be able to produce locally should the completion of the EEC market be incomplete, and to be able to rationalise in order to exploit economies of scale in development and production should a more positive outcome occur. So far, these moves have largely excluded Scottish participants in the industry. This is, in itself, a negative development, as some of these new cross-border producers will have at least the potential to supply much of the high value-added plant and components from within their associates.

At present, however, smaller firms are still able to compete effectively, as the gaining of a £160m order by FKI Babcock for an Iraqi power station testifies. The firm hopes also to be able to win a £300m contract for the CEGB desulphurisation programme. However, hopes that these projects will be followed by new major contracts from the privatised UK electricity supply industry appear to be premature for a number of reasons. First, past estimates of the growth in electricity demand from within the industry have tended to err, with caution, on the optimistic side. Second, increased electricity prices following privatisation could well result in improved energy efficiency, as a number of European countries have already pioneered the relevant technologies. Third, partly as a reaction to the CEGB's technological conservatism and partly as a result of the increased cost of capital to the privatised industry, the trend may well be for new generating capacity to consist of smaller gas-turbine plants. These also have the advantage of being more fuel efficient and more environmentally acceptable, at the expense of higher running costs.

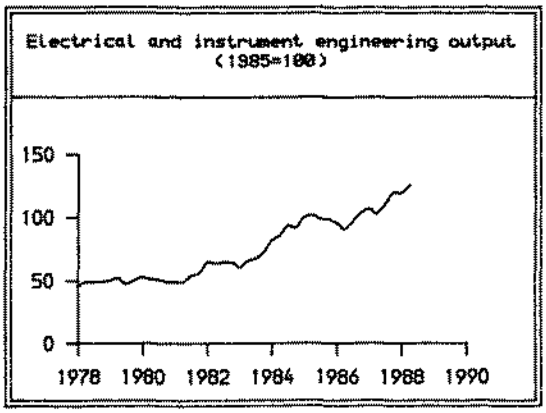
If this trend should materialise, one Scottish firm is well placed to benefit. This is John Brown of Clydebank, a division of the Trafalgar House group. This firm has recently sold five gas turbine plants to the Philippines and is involved in a joint project with one of the English area electricity boards to build a plant of this type. John Brown has also begun an international expansion of its process plant division by taking a major stake in France's second largest process plant developer. While this move continues the outward investment trend of Scottish engineering firms, it is probably not a step toward becoming a supplier of gas turbines on a European scale, as France would not be an obvious target market.

Events elsewhere in the Scottish Mechanical Engineering industry have been mixed. Howden have enjoyed a much improved performance, with profits in 1988 up by almost half on the previous year. They have also delivered the first of the major Channel Tunnel boring machines in a shorter timescale than was achieved by the American firm contracted to produce the other machine. Howden's purchase of the German soft-rock tunnelling specialist Wirth paid off when it won the contract for the boring machine for the Danish Great Belt project. At £41m, this is a larger undertaking for the firm than the Channel Tunnel project.

Anderson Strathclyde, the longwall cutting machine manufacturer, have continued to suffer the effects of the concentration of the coal industry on a much smaller number of faces. Charter Consolidated, its South African based owners, have stated that they have now written off half the firm's net worth, compared with its valuation in 1983, when they bought it. A review of the scope of the firm's operations has been carried out prior to a general corporate review, suggesting possibly severe cuts. The potential for the firm to abandon all its remaining Scottish plants has been said to exist if the Scottish deep-level coal industry is closed.

Problems also persist at the National Engineering Laboratory (NEL). Following the failure of privatisation referred to in the last Commentary, the centre has been given agency status within the civil service. Privatisation has now been put back on the agenda, albeit with a two year delay. The concept is now to arrange for buyouts of individual departments over this period, with the sweetener of a new technology park and training centre in the unused portion of the Laboratory's premises. If successful, this policy could reduce staff uncertainty and preserve a Scottish technological asset. However, unilateral moves to alter the status of staff may mean that this source of a major row between government ministers could well continue to give cause for concern.

ELECTRICAL AND ELECTRONIC ENGINEERING



Overall, this sector continued to perform strongly increasing 6% in the first quarter of 1988, outperforming all other sectors in the same period. The Index also shows that this sector has grown in output terms by over 25% since 1985.

The most recent Scottish Chambers' Business Survey provides a fairly mixed bag of results. A majority of firms (68%) reported an overall upward trend in sales, approximately two-thirds of which were for export. The trend in new orders, however, was significantly below this level at only 48%, with slight further reductions expected. Little change in employment is expected over the next quarter.

In semiconductors, a survey of the European market by the Californian company Dataquest has revealed that in 1988, during a period of increased Japanese penetration of the industry with ten of the top twenty global producers coming from Japan, the European owned or based firms continue to dominate in the home markets. Philips (Holland) and SGS-Thomson (France) were the two leading companies, both achieving European sales of over $1Bn for the first time. Two Scottish based companies, Motorola and National Semiconductor, were fourth ($636Mn) and seventh ($390Mn) respectively. However, Japanese sales in Europe increased substantially and a significant new threat is apparent in the performance of the Korean company Samsung. While failing to make the top ten, Samsung saw its European sales grow by a phenomenal 283% from 1987 to reach $134Mn. Dataquest predict a fairly modest growth this year of around 8%. However, analysts are divided on this issue with other reports predicting higher growth rates until well into the nineties, arguing that strong growth in personal computers will continue to stimulate chip sales. The difference in outlooks between observers may be partly due to a feeling that the PC market has reached something of a plateau, with PC costs such that they can be afforded by even the smallest business as well as the hobby and home-professional markets. In the business sector, once PC systems are in place they are likely to be replaced only every two-three years, and so the industry will probably begin to go exhibit retooling cycles. While this may not completely replace the phenomenal growth of the last decade, it is likely that we will begin to see relatively high but more erratic growth for some years to come.

In the company sector, there is again a fair crop of results which further confirm the good standing of Scotland as a manufacturing base for both the new and existing foreign sector which dominates the industry. NCR, who have now been manufacturing in Dundee for over forty years and where the local plant has a world remit to develop and manufacture banking terminals, are to open a 2,000 sq. ft. factory in Dunfermline to manufacture a new video product, development of which will be at Dundee. Although the decision raised tempers at Dundee and occasioned a one-day stoppage in protest, the company claims that Dundee versus Dunfermline was not an issue, and that the alternative locations being considered were in America and Mexico. No employment details were given. Simultaneously, NCR announced a £2Mn investment at Dundee to upgrade distribution and warehousing of its existing facilities.

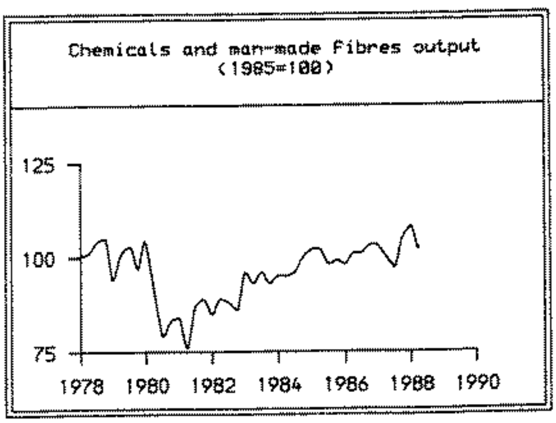
The DTI's decision to licence four companies to produce a new type of portable telephone is expected to increase employment in Scotland. At least three of the licensees are likely to use phones produced at Philip's Dunfermline factory. The new system, CT2, will be in direct competition with the existing cellular system, the market for which has already reportedly topped £3Bn per year. CT2 will require the setting up of a network of Telepoints since the phones need to be within 100 yards of these to work. Despite this high initial cost, running costs are expected to be well below those of present systems and sets are expected to cost as little as £200 each.

One of the leading developers of CT2 is Ferranti, although the firms Scottish operations are not involved. However, Ferranti is currently waiting to hear whether it will be awarded the contract to build the radar system for the European Fighter Aircraft, worth around £400Mn, much of which will be spent in Scotland. The company expects to here within the next few months.

Potentially the best piece of news is the announcement that the GEC/Plessey joint venture company GPT is to produce personal computers for Amstrad at its Kirkcaldy operation. The plant, which employs 700, has until now been producing telephone systems but was due to close at the end of this year. Tbe importance for the local area lies in the fact that despite Amstrad's lack of technological commitment (strategically, it attempts to replicate whatever IBM does as quickly as possible) it is one of the UK's leading computer companies in a market which (see above) will probably continue to exhibit growth over the next decade at least, securing jobs at Kirkcaldy until then.

The decision by the ECCO Corporation of the United States to set up in Irvine is further good news for the New Town, which has recently been revitalised by the opening of the Stromberg paper-making plant, and will fill an important gap in the local manufacturing infrastructure. Until now, no computer keyboard manufacture has existed in Scotland despite the presence of most other sections of the electronics industry.

CHEMICALS AND MAN-MADE FIBRES



Following the revision of the Index of Production and Construction for Scotland, the index for Chemicals and Man-Made Fibres in the second quarter of 1988 stood at 102 (1985 = 100). This figure is 6% down on the first quarter of 1988. A comparison of the previous four quarters reveals a growth rate of 1%. The UK growth rate for the latest four quarters on the previous four quarters was 7%.

The latest Scottish Chambers' Business Survey (February 1989) would seem to imply an air of stability in the Chemicals and Man-Made Fibres sectors. 100% of respondents have the same degree of optimism as was recorded in the previous Survey.

Scottish Chambers' Business Survey - Chemicals and Man-Made Fibres

	% Balance	
	Dec 88	Oct 88
Balance of Optimism	0%	32%
Trend in Orders	85%	-14%
Trend in Sales	76%	-13%
Trend in Employment	80%	7%

For 85% of firms responding, the trend in the total volume of new orders was up; 73% of these new orders were for exports. The trend in the total volume of sales also increased and now stands at 76%, and 73% reported that exports were up. Over the next three months, 54% of the firms expect their sales to increase. The trend in employment is also very encouraging, with a balance of 80% of respondents reporting that employment had increased; 52% of firms reported an increase in female employment and 37% reported an increase in male employment.

In December 1988, the Glasgow based waste disposal experts, Shanks and McEwan announced a 36% increase in pre-tax profits for the six months to September 1988. Analysts are forecasting £13.5 million for the full year. It is estimated that by 1992, Shanks & McEwan could have 70% of all landfill sites in the range north of London.

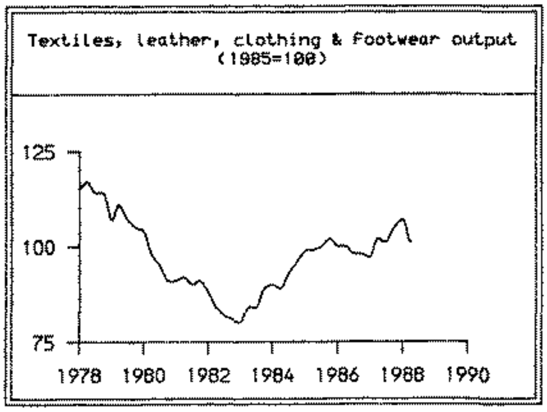
Two years ago, K V Wooster International Ltd, the Midlands based company relocated its production departments in Campbeltown, creating 25 new jobs. In February this year it was announced that they were relocating the remainder of their business there with 15 additional jobs. Increased output in

1989 is expected to add another 15 new jobs to the workforce. The relocation was, in part, funded by the Highlands and Islands Development Board. The company are manufacturers of model airliners and specialised plastic catering equipment.

Magna GMBH of Berlin, have announced a £1.8 million project that will bring 40 new jobs to East Ross. The Highlands and Islands Development Board provided a £300,000 financial package and a custom built 24,000 square foot factory in the Invergordon Enterprise Zone.

The Cohen Packaging firm at Invergordon are creating 25 new jobs. The Highlands and Islands Development Board factory provide 700,00 rigid boxes a year to Zonal, a recording tape manufacturer (a sister company of Magna). Also, Grampian records in Caithness are likely to recruit additional staff to produce pre-recorded tapes. This is work that used to be carried out at the Zonal plant in Surrey.

TEXTILES, FOOTWEAR, LEATHER & CLOTHING



With the revision of the Index of Production and Construction for Scotland, the figure for the second quarter of 1988 stood at 101 (1985 = 100). This represents a 6% decline on the first quarter of 1988, when the index was 107. The Scottish Index remains at the same level as the UK figure which has fallen by 3% since the first quarter of 1988. A comparison of the latest four quarters with the preceeding four quarters reveals a growth in output of 5%.

The latest Scottish Chambers' Business Survey would seem to indicates a degree of pessimism in the textiles, footwear, leather and clothing industries. A balance of 20% of firms surveyed were less optimistic about the general business situation for their industry.

Scottish Chambers Business Survey - Textiles, Footwear, Leather and Clothing

	% Balance	
	Dec 88	Oct 88
Balance of Optimism	-20	- 2
Trend in Orders	+ 9	+21
Trend in Sales	+ 2	+23
Trend in Employment	+ 9	+15

Although the trends in orders, sales and employment are still upwards, they are less so than was the case in the October Survey.

Despite high interest rates and a strong pound, it has been a good year for the export of woollen cloths for the UK. Export sales increased by 3% to £461 million in the nine months to September 1988. Exports to the US have shown some difficulties, but exports to other countries such as Japan are remaining strong. The industry as a whole is now concentrating on more expensive products.

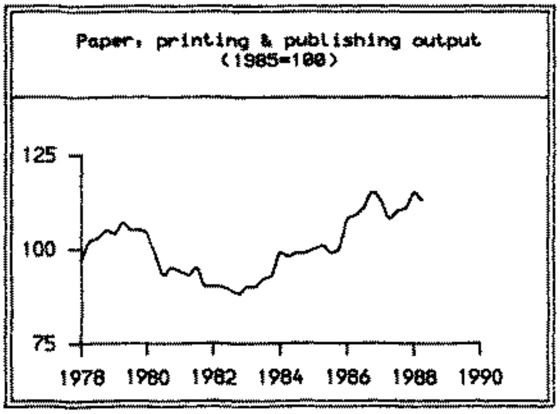
In December 1988, Dawson International announced an increase in profits to £21 million in the six months to September 1988, an increase of 11%. This was achieved in spite of rising prices in raw materials and adverse exchange rates. In December, Dawson doubled their US interests by buying CPG, a sports and underwear manufacturer for £75.5 million. CPG was expected to make a pre tax profit of $17.1 million in 1988. This will mean that Dawson will be less dependent on luxury knitwear from Scotland, which tends to be subject to the adverse exchange rates and the rising costs of raw materials.

In January this year, a £2.5 million Jaegar factory proposal was announced for Campbeltown in Argyll. This will safeguard 220 jobs and create a further 20. The development is being part funded by the Highlands and Islands Development Board. Jaegar is part of the Coats Viyella textile group and is the largest single employer in Campbeltown.

The Aberdeen based textile group, Richards, reported pre-tax profits of £2.51 million, an increase of 94%, and an increase in turnover of 26%. Richards bought over Spence Bryson, the Northern Ireland carpet, linen and mens shirt manufacturer that employs 1,100 people.

A proposal was announced for a factory in Forfar to undergo a £4 million expansion programme. The factory, owned by Don and Low, is the only UK manufacturer of polypropylene fabrics. It is expected that the expansion will create 20 new jobs. Also in Angus, Bonar Textiles is to take over A G Scott Textiles.

PAPER, PRINTING AND PUBLISHING



Figures from the latest provisional index of production show that Scottish output in paper, printing and publishing fell between the first and second quarter of 1988 from 115 to 113. These statistics are not comparable with figures reported in previous Commentaries due to the rebasing of the index with 1985 now being the base year. This 1% decline in quarterly output does not compare favourably with the equivalent UK growth rate of 2% (the UK index for the second quarter of 1988 was 123).

On a more positive front, responses to February's Scottish Chambers' Business Survey were optimistic with a net 12% of firms more confident about the general trading situation in the paper, printing and publishing industry. The trends in new orders and sales exceeded expectations expressed last quarter with 74% of respondents reporting increases in the total volume of new orders. The corresponding figure for sales is 48% with growth reported in all markets. The short-term prospects are good on the sales and orders front with net expected trends of 53% and 35%, respectively.

Despite the actual and expected increases in orders and sales, October's forecast of a decline in total employment was realised with a net 11% of paper, printing and publishing respondents reporting downward trends. A balance of 18% of firms expect this decline to continue into the first quarter of this year.

Investment intentions in this sector have seen an upward revision with respect to both plant and equipment, and buildings. This is consistent with 40% of respondents reporting plant capacity as the factor most likely to limit their output in the first three months of this year. However, a lack of orders and sales is seen by a net 42% of firms as the major constraint.

The results of the latest CBI Industrial Trends Survey for this sector suggest that the overall outlook for the UK is not as confident as that felt by Scottish respondents to the Chambers' Business Survey. A net 19% of CBI reporting firms are less optimistic about the general business situation in their industry.

The most notable recent development in the paper, printing and publishing industry, was the New Year takeover of William Collins. Following the withdrawal from the ownership battle of Groupe de la Cite', France's second largest bookseller, directors of the Glasgow publishers were forced to accept Rupert Murdoch's News International hostile £403 million bid. The bitterly fought battle ended in a series of departures at senior management level. Speculation about plans for the company, currently centre on the bookselling division which includes the Hatchards group.

One of the world's oldest publishing houses was also involved in the takeover market earlier this year. T & T Clark, an Edinburgh-based academic publishing house founded in 1821 is taking over the publishing interests of William Hodge and Company for an undisclosed price. William Hodge, a family firm established towards the end of last century, is best known for its Scottish Law Directory.

TRANSPORT EQUIPMENT

In this sector, the welcome news is that the Hall-Russell yard in Aberdeen has been saved from closure. Concern over the 435 jobs has been running at a high level since late last year when the company went into receivership and the ODA was forced to invite tenders for the completion of the St Helena ferry. The contract will now be completed at Aberdeen following the payment of a guarantee by the Scottish Office which is believed to have cost around £10Mn. Following this deal, the yard has now been purchased by Mr Peter de Savary's A & P Appledore company of Newcastle.

The Government's decision that it will invite tenders for a further batch of Type-23 frigates later this year or early next year offers the very strong possibility of more work for Yarrows, who designed and built the lead vessel and won orders for six of the seven contracts awarded last year. Yarrows has not, however, been without problems despite this success, having to lay off another 100 employees in addition to the 265 redundancies negotiated last year because of the Navy's decision to stagger orders over a longer period than was originally planned.

Services

FINANCIAL SECTOR

A famous theorem in Finance (Modigliani Miller) states that in a perfect market the value of the whole must equal the sum of the value of the parts. It is useful to consider whether a similar dictum applies to the Scottish Financial Sector. Is the sector as a whole simply the sum of the parts or does the concentration in one location, and particularly in Scotland, confer additional advantages? The importance of such a question is manifest. If the Scottish Financial Sector is simply the sum of its parts there is little reason to be concerned in attracting new firms into the sector or to be unduly worried over a drift of firms South (apart from its employment consequences). If, however, there are positive synergies arising from the concentration of financial institutions then policy should be towards actively expanding the sector and attracting new firms. The foundation of Scottish Financial Enterprise suggests that its members believe in the existence of benefits at the very least in the marketing and promotion of the distinctive Scottish image for caution, thrift and acumen in financial decision making. It is not always clear, however, that its members see wider benefits arising from the attraction of new players to the Scottish financial scene. Complaints about increased competition for man (and woman) power and the increased difficulties of acquiring suitable office space abound. It is rare to hear supportive arguments applauding improvements in the availability of specialised legal, accounting or other advice, or of the increased opportunities for financial education, research and training.

Of course, recruitment and difficulties of securing office accommodation are frequently more immediate problems, but even here the benefits of a wider labour pool from which to draw and increased labour movement bringing with it new people and ideas is not to be dismissed lightly. It is difficult not to believe, for example, that the impact of current demographic changes on recruitment by banks, insurance companies and building societies will not lead to marked improvement in the use of labour and a significant updating in the nature of many jobs. Similarly the arrival of new employers and their requirements for trained personnel is likely to generate improvements in working practices and a rethink in the nature and use of manpower.

Whilst casual empiricism suggests that there are benefits from concentration of financial activity there has been little rigorous testing of such concepts. An exception is the recently published paper by Goldberg, Helsley & Levi* that examines the determinants of the spatial distribution of financial activity. Using data from a sample of US states they find that the level of domestic and international financial activity (and employment) is positively and significantly related to the level of imports, the number of corporate headquarters and per capita income, although the latter variable was not always significant. Activity was negatively related to exports. If income, exports and the number of corporate headquarters are major determinants of financial activity - and it's important to recognise the difficulties of distinguishing between causes and consequences - then the benefits of synergy are small and the scope for above average expansion of activity in the Scottish financial sector limited. Of course the study may be easily faulted. The circumstances influencing financial activity in the US states are not necessarily the same as those in Scotland, whilst the focus of the study on the level of activity rather than changes in activity is not helpful. However, the study provides evidence that is not available elsewhere and suggests that at the very least Scottish Financial Enterprise should be seriously considering its future role, scope and direction.

Competition and innovation is a frequent theme of this Commentary. It has been suggested that the Scottish Financial Sector has not always been particularly competitive or innovative. One particular charge has been the failure of the Glasgow Stock Exchange to specialise in venture capital or unlisted securities. The recent rumblings in the Stock Exchange and the battle over automated dealing systems highlights once again the possibilities for innovation. The Stock Exchanges has constructed an automatic execution facility (Saef) which allows the purchase and sale of small lots of shares to be executed automatically by computer.

Delays in its introduction led to the development of rival automated dealing services by Kleinwort Benson and Barclays de Zoete Wedd and has given rise to a battle of words between groups of supporters. Some allege that the Stock Exchange is bureaucratic and unable to manage projects effectively and consequently should be privatised. Others argue that competing non Stock Exchange systems are parasitic and do not always operate in the client's best interest. The implicit assumption appears to be that business is limited and that only one system is required. In so far as the hope is to extend the systems to take in larger deals there may be some support for such a view but it is difficult to believe that a small automatic execution system cannot function in competition with others. The technology behind such systems is well known and available, and the potential market almost limitless. For a start every bank, building society and insurance broker could have access to an automatic execution scheme whilst home banking and the home computing market provides another possible area. A central computer, a market maker prepared to deal in small lots and the availability of software to enable a PC to communicate with the central machine is all that is required. The goal of a share-owning democracy could be greatly advanced by the accessibility of easy, convenient and cheap share dealing facilities. Here then lies an opportunity for the Scottish Institutions to offer the public a genuine alternative. Whilst the Stock Exchange and its critics wrangle over schemes that are designed ultimately to allow the automatic execution of large deals it should be possible to introduce a scheme, available to the public at large, that would allow quick, cheap and easy transactions. The recent announcement of the tie up between the Halifax and Standard Life by which the Halifax will offer its customers Standard Life policies points the way. The same machines that will no doubt communicate with Standard Life offices could also access an automatic execution system. Add in the Bank of Scotland and a national network would be available.

The forces that have led to the tie up of the Halifax and Standard Life, the likely demise of independent intermediaries, has also drawn its first major casualty in Scotland - the planned demutualisation of FS Assurance and its incorporation into Brittania Building Society. The acquisition of FS is still at an early stage and may yet be thwarted but does suggest that the Scottish life offices, particularly the smaller ones, are more vulnerable than they like to admit. This may only be the first of several such changes in the life assurance sector. The impact of the takeover of FS on Scotland is too early to assess but it is worth noting that the earlier wave of takeovers of Scottish Offices was felt to have led to a significant exodus of managerial activity from Scotland. The clerical operations remained but the senior management went South. It is to be hoped that this will not be repeated but it is difficult to be sanguine about the prospects of the management continuing to be based in Scotland when the head office of the Brittania is elsewhere.

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* "The location of international financial activity: an interregional analysis", Regional Studies, Vol. 23, 1989, pp1-7.

DISTRIBUTIVE TRADES

Wholesaling

Latest figures from the Scottish Chambers' Business Survey, indicate that wholesalers enjoyed a buoyant final quarter of 1988, with a net 46% of respondents reporting an increase in the volume of total sales. However, this fell short of expectation expressed last Survey, when a net majority of 74% were anticipating sales growth. A balance of 34% of responding firms are forecasting rising sales for the first three months of this year. Despite this, a balance of 10% of wholesalers are less optimistic about the general trading situation in their industry than they were 3 months ago. This general pessimism may be partly explained by earlier expectation not having been realised. Another possible explanation is post-Christmas blues. Although respondents are asked to exclude seasonal factors from their returns, it is often the case that they do not.

The trend in employment in wholesaling was upwards. A net 20% of wholesalers who participated in the SCBS reported an increase in total employment. Within this aggregate, the trend in full-time and part-time employment was +21% and +10%, respectively. A small majority (+11%) of wholesaling participants expected further job-growth during the three months to March 1989. Particularly in full-time employment (+10%), a net 3% of companies are expecting a decline in part-time employment.

Insufficient floorspace was reported as the factor most likely to limit sales in the short-term by 26% of responding wholesalers. This is consistent with a net 19% of companies in this sector having revised their investment intentions upwards with respect to premises. Stock shortages are still seen as an impediment to further short-term growth amongst 16% of wholesalers.

Table 1 shows the geographical pattern of February's SCBS wholesale responses. A good sales performance was enjoyed in all the regions and this is expected to continue. Upward revision of investment intentions is also geographically widespread.

Table 1 Geographical response to February SCBS - SCBS Wholesaling

	Balance of respondents in:			
	G	E	D	A
	%	%	%	%
Overall confidence	0	-87	+ 6	+44
Actual Sales	+33	+29	+69	+61
Expected Sales	+27	+36	+31	+42
Actual employment	+40	- 3	+ 4	+34
Expected employment	+ 7	+ 1	+ 0	+29
Investment Intentions	+21	+ 6	+28	+27

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

However, regional disparities are evident with respect to actual and expected trends in employment and also overall confidence. Edinburgh wholesalers seem to have adopted a particularly gloomy outlook.

Retailing

Retail sales growth in the final quarter of 1988 was strong with a net 74% of retailers reporting increases in the volume of total sales. A balance of 62% expect rises to continue at least in the short-term. Despite this optimistic outlook on the sales front, a net 7% of companies are less confident about the future than was the case three months ago. A combination of factors are likely to provide the explanation for these seemingly inconsistent results. As with wholesaling, the inclusion of seasonal factors on the part of respondents is likely to be partly responsible. Some of the inconsistency can also be accounted for by statistical problems. However, some explanation is likely to be found in the persistent high interest rates experienced in this country. Retailers are likely to be anticipating that the increased cost of borrowing will lead to a reduction in consumer spending which will have a negative impact on their industry.

Table 2 Geographical response to February SCBS - SCBS Retailing

	Balance of respondents:			
	G	E	D	A
	%	%	%	%
Overall Confidence	+10	-93	-63	+13
Actual Sales	+66	+86	+65	+98
Expected Sales	+93	+51	+13	+85
Actual Employment	- 5	+53	+13	+64
Expected Employment	- 1	-27	+10	+77
Investment Intentions	+36	+ 3	- 1	+72

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

Employment grew between October and December 1988 among a net 16% of retailing respondents. A balance of 14% of firms expect this growth to continue. However, future employment growth is expected in part-time jobs at the expense of full-time jobs - 13% of retailers anticipate a decline in full-time employment but 46% forecast growth in their part-time workforce.

A net 34% have increased their investment intentions in premises which is compatible with 25% of retailers viewing insufficient floorspace as the biggest short-term constraint on sales. As in wholesaling, stock shortages are seen as the second most limiting factor.

Table 2 gives a geographical summary of February's Scottish Chambers' Business Survey retail responses.

Strong sales performances are evident in all regions for the last three months of 1988. Sales growth is forecast for all sectors with confidence strongest in Glasgow and Aberdeen with Edinburgh and Dundee trailing behind. Regional variations are evident in employment trends and there are significant differences in overall confidence.

TOURISM

Table 1 shows that Scotland's tourist industry achieved a turnover of approximately £1.9 billion in 1987 according to the official IPS* and NSTS** figures. Though the average per capita trip spend of overseas tourists was 158% higher than its domestic counterpart, the respective per capita daily spend was roughly comparable - £28 as opposed to £26. This rather mysteriously runs counter to the common sense observation that overseas visitors typically spend more per day than domestic ones.

In volume terms, overseas tourism trips to Scotland in 1987 are up 27% on 1984 and for 1988 are likely to show a small increase on the previous year. The domestic tourism picture is an altogether less buoyant one: only a slight growth (+2%) in trips is apparent when 1987 is compared with 1984, and the figures for 1988 are expected to be 10-15% down on 1987.

The 1.4 million overseas tourists who visited Scotland in 1987 were dominated by North Americans (40%) - see table 2. Western European EEC countries comprise a further 29%, with West Germany (114,000 trips) and the French (102,000 trips) being important country sources. Other Western European countries (8%) and the rest of the world (22%) make up the remainder. A highly significant "rest of world" country source is Australia (100,000 trips) with 1 out of every five Australians to the UK "taking in" Scotland.

Table 2 shows that Scotland's penetration of the North American market is appreciably higher than it is for the UK as a whole; this is of considerable commercial and economic significance since the per capita daily spends of Americans and Canadians is nearly double that of Western European EEC nationals.

Within Scotland, Edinburgh is the most popular destination for overseas tourists: some 54% stay overnight there and certain of its hotels and attractions are more or less dependent on this traffic.

Table 1 Tourism in Scotland 1987: Volume and Value

	Trips (m)	Bed-Nights (m)	Expend-iture (£m)	Per capita spends Trip (£)	Per capita spends Day (£)
Overseas tourism	1.4	13.4	373	266	28
Domestic tourism	13.4	58.1	1521	103	26

Sources: IPS and NSTS

Table 2 Regional Origin of Overseas Tourists to UK and Scotland, 1987

	UK Trips ('000s)	Scotland Trips ('000s)
North America	4,755	524
Western Europe EEC	6,955	381
Other Western Europe	1,853	108
Rest of World	3,707	291

Source: IPS

Table 3 shows that Glasgow, with a penetration rate of roughly 1 out of every 5 overseas visitors to Scotland, and the Highlands and Islands with 3 out of every 10, are the other favoured "Milk Run" destinations.

Table 3 Geographical Distribution of Overseas Tourists to Scotland, 1987

	Trips ('000s)	Penetration factor (%)
Edinburgh	703	54
Highlands & Islands	367	28
Glasgow	259	20
Strathclyde excl Glasgow	187	14
Grampian	134	10
Tayside	132	10
Fife	63	5
Central	56	4
Dumfries & Galloway	35	3
Borders	32	2
Lothian excl Edinburgh	18	1
Unspecified	28	

Note: Trip destinations are not mutually exclusive, so sum to more than 1.4M.

Source: IPS

Table 4 Trip Purposes of Overseas Tourists to Scotland, 1987

	UK %	London %	Scotland %
Holiday	49	51	62
Visiting friends & relatives	20	15	20
Business: conference	20	22	13
Study	4	2	2
Other	8	10	3

Source: IPS

Vis-a-vis the rest of the UK, Scotland's overseas tourist traffic is heavily biased towards holidaymakers, with proportionately less dependence on business visitors and conference delegates - see table 4. In this connection, the recent finalisation of plans to build a new international conference centre in Edinburgh will enhance Scotland's abilities to compete more effectively and vigorously for a bigger share of this lucrative business. The average per capita daily spend of an international business conference delegate to the UK is approximately £86: the American Bar Association conference hosted over a two week period in London during 1985 brought along 20,000 delegates and their spouses and resulted in a cash injection of over £30 million.

The 13.4 million domestic tourists to Scotland in 1987 generated 58.1 million bednights, a bednight figures substantially lower (-7%) than that recorded in 1984 - see table 5. The prime GB catchment region is Scotland itself, comprising 49% of all domestic tourism trips in 1987. The remainder are drawn from Sooth of the Border and are quite widely spread across the English regions and Wales - refer to table 6. Those emanating from East Anglia, London and the South East account for 15% of all Scottish domestic tourism trips; they spend on a per capita basis an average of £180-190 on each trip which is over double that of Scots taking tourist trips within Scotland. As with overseas tourism, the most important category of travel purpose is holidays (48% of trips) with business and conference flows taking up most of the remainder (31%). Most of the holiday trips are taken by car, independently arranged (87%) and are non-touring (92%); typically, they represent an additional "second" holiday (59%) as opposed to a main one.

Table 5 Volume and Value of Domestic Tourism to and within Scotland, 1984-87

	Trips (m)	Bednights (m)	Spend (£m)
1984	13.1	62.7	1,161
1985	12.5	57.1	1,117
1986	11.9	55.6	1,224
1987	13.4	58.1	1,521

Source: NSTS

Table 6 Origin of Domestic Tourists to and within Scotland, 1987, with Indicative Average Per Capita Trip Expenditures

	% of all domestic tourism trips	average per capita trip expenditures (£)
Scotland	49	86
Wales	1	88
England	50	118
North		8
Yorks/Humberside		7
North West		9
West Midlands		6
East Midlands		3
South West		3
South East (inc. London and East Anglia)		15

Source: NSTS

The most favoured locations for domestic tourism are Glasgow and Edinburgh, the 1987 returns showing 1.8 million and 1.6 million trips respectively. Glasgow's pre-eminent position is likely to have been further emphasised in 1988 as a consequence of the National Garden Festival: 13.5% of the 4.3 million visitors to the Festival (+600,000) were staying visitors from England, Northern Ireland and Wales.

Due largely to the influence of Glasgow and Edinburgh, the Strathclyde and Lothian regions are also the prime generators of leisure day trip visits and expenditure. Such day excursion movements are now monitored under the Scottish Leisure Day Trip Survey, and the first set of returns for 1987 reveal that nearly 70 million such trips were made, with residents of Strathclyde and Lothian generating 54% and 16% respectively of the grand total. Just over half of these trips (51%) were to urban centres with the big 4 - Edinburgh, Glasgow, Dundee and Aberdeen - accounting for roughly 1 out of every 3 day excursion visits. The total value of day excursion traffic by Scots within Scotland is estimated at approximately 380 million.

Admissions to visitor attractions in Scotland was monitored each year under the Visitor Attractions Survey (VAS) are expected in 1988 to show a generally upward trend on the previous year. This is confirmed by already-published National Trust for Scotland statistics: the 1988 grand total of 1,726,000 visits compiled from returns at 50 discrete sites was 3.5% up on 1987, and 28% more than the comparable figure a decade ago. Culzean Castle and Country Park provided once again to be the most popular attraction with 277,000 paid admissions - in 1960 the comparable figure was a mere 72,000. Other trust properties with 100,000+ admissions are Glencoe, Inverewe gardens and Culloden with year on increases from 1986 of 12%, 10% and 14% respectively.

* The International Passenger Survey (IPS) is carried out on an annual basis by the Office of Population Consensus and Surveys.

** The National Survey of Tourism in Scotland (NSTS) is commissioned by the Scottish Tourist Board.

TRANSPORT

Air

The debate over shape of Lowland airport policy in Scotland has recently resurfaced, but this time with a vengeance which suggests that the supporters of Abbotsinch are determined not to lose out this time. The question of whether Prestwick should continue to retain its status as Scotlands sole transatlantic gateway or whether American flights should be allowed to leave Glasgow was dealt with at some length in an article in this Commentary at the time of the last policy review (see QEC, August 1985 pp62-66). The basic case against Prestwick remains substantially as stated then, the only difference being that Prestwick has failed to take off as its supporters hoped when it was reprieved, further confirming the case in favour of Glasgow.

Prestwick remains the sole loss maker of BAA's four Scottish airports, and although its financial position improved last year when it cut its losses to just under £1Mn, it has lost over £20Mn in the last decade. In comparison, Glasgow made a profit of £8.1Mn last year alone. Passenger traffic at Prestwick, at just over 300,000 last year, was less than one tenth of that through Glasgow, and although this again shows a slight increase from the low point of four years ago when the figure was 250,000, it hardly tallies with what one expects from a major international airport. Despite its monopoly of transatlantic flights, Prestwick offers only one flight per day to the US, a level of service which has remained basically unchanged since 1981, Highland Express notwithstanding. Clearly, this level of service is insufficient to support the 600 jobs which are involved with passenger services.

Fundamentally, Prestwick is hampered by a poor location and inadequate transport links to the major population areas in the Central Belt, and the airport has one of the smallest catchment areas of any in Europe. Even if greatly improved road and/or rail links were to be provided, it is clearly unlikely that these would match the facilities at Glasgow, where the M8 passes within half a mile of the terminal.

It is against this background that Prestwick's owners, the newly privatised BAA, have recently requested that the government bring forward the policy review which was expected to occur somewhat later this year. The Chairman of BAA, while praising the efforts of staff at Prestwick, has argued that, in the period since the last review, "Prestwick would appear not to have established itself with the airline industry or the Scottish Community as a future gateway for Scotland". There seems little doubt that Prestwick is an uneconomic proposition in its present role. More importantly, its critics have argued that the present set up has retarded the development of Abbotsinch as an international hub airport where flights from North America, Europe and the UK would interline to provide a much-enhanced service for all of Scotland. At present, the major beneficiary of policy is Manchester, which has become the recognised hub for the northern half of the UK and which promotes itself as "the international gateway to Wales, the Lake District and Scotland". While it is not certain that Glasgow would develop in the manner mentioned above, it is clearly more likely to fill such a role than Prestwick will ever be.

Economically, the case for retaining gateway status at Prestwick is non-existent. Although no one can blame its supporters for pushing its case because of the local consequences of closure, when the review finally goes ahead, there must be a strong possibility that the combined weight of opinion of the owners, of users (such as the Air Transport Users Committee who recently termed present policy "ludicrous"), and of the airlines themselves, will prevail. It is no secret that most airlines are unhappy with present policy and, indeed, one of the two major operators, Wardair, announced before the Chairmans statement that there was a strong possibility that it would increase the level of American flights if it was allowed to fly from Abbotsinch. BA and British Midland are also known to favour Glasgow. However, while logic dictates that policy will change after the review, Prestwick's supporters will be very aware of Butler's dictum about politics being the art of the possible, as this case surely proves.

Roads

Strathclyde Region has announced its revised plans for the completion of Glasgow's inner-city system, involving two new road bridges over the Clyde adjacent to the Kingston Bridge linked to a new motorway across the south side of the city. By moving the new road well south of the originally proposed route, the Council has removed the objections of environmentalists who voiced concern over the original proposals, which would have cut through both Glasgow Green and other historic parts of the City. Objections from other residents in the affected areas now seem likely. The proposals still have to be approved by the full Council and the Secretary of State.

HEALTH

Attention is currently focused on the Government's White Paper Working For Patients and its 8 associated working papers. The Government is intent upon preserving the public finance base for the N.H.S. whilst introducing a contracting system which it hopes will promote internal markets in the provision of health care, with further scope for the slowly-growing private health sector.

The contractual arrangements will involve *inter alia* (i) General Practitioner services, (ii) hospitals, (iii) the private sector. (i) Larger G.P. practices (11000 patients and above) - about 60 (5% of the total) in Scotland - may be eligible to operate their own budgets, which will be used e.g. to 'purchase' surgical operations for their patients from hospitals. (ii) Some hospitals may choose to opt for self-governing status by forming themselves into hospital trusts. The Scottish Office expects that two major acute hospitals might attain such status by 1992, with a further 30 in the pipeline. The Labour Party named the two as Inverclyde Royal and Livingston District General (Bangour) since pilot studies are currently taking place at these hospitals. Labour also named the other 30 'candidates', a move condemned by the Scottish Office, which asserts that decisions will only be taken at the hospitals concerned. It should be noted that the new contractual procedures will also apply to non-trust N.H.S. hospitals. (iii) The private sector may enter into contractual agreements to handle N.H.S. patients and vice versa.

In addition, significant management and administrative changes are proposed. A Chief Executive for the N.H.S. in Scotland "responsible for the efficiency and performance of the health service" will be appointed. The Scottish Health Service Policy Board will be abolished as will the Health Service Planning Council. An Advisory Council reporting to the Secretary of State will be constituted, comprising individuals representing management, professional and other staff, the unions, the private health sector, and other related interests. The Council will also advise the Health Boards, which will be slimmed down from the present 14-22 members and will include general managers for the first time.

A notable managerial feature is the role of non-executive directors in the system. For example, the chairman of each hospital trust will be non-executive, appointed by the Secretary of State, and will chair a Board comprising an equal number of executive and non-executive members. The latter will not be allowed to represent any 'interest group' so that, for example, no N.H.S. trade union representative will be appointed to a hospital trust board.

Other White Paper proposals include relating 60% of G.P. remuneration to list size (against the present 46%) "while safeguarding the position of doctors in the less populated areas of Scotland", and giving G.P.'s 'indicative' budgets for their drug prescribing costs. In addition, medical audit is " a fundamental principle of the review". This involves the assessment of the quality of medical care on various criteria and is to be applied not only to hospital activities but also to G.P.s. Pilot projects on the use of medical audit have been undertaken in Lothian region and the results are deemed encouraging enough to implement audit throughout the Scottish health service.

These proposals are presented at a time when the Scottish Office continues to assert how well the N.H.S. is performing in Scotland. A glossy booklet The Scottish Health Service was published in November 1988 which details the achievements: longer life expectancy, lower infant mortality (down from 12.1 per 1000 live births in 1980 to 8.5 in 1987), 14% more in-patients treated in 1987/88 over 1979/80, 435000 additional out-patient attendances, more joint replacements and open heart operations, a reduction in the G.P. average list size from 1831 persons to 1626, more home visits, more consultants (up 9.2% 1980-87), more nursing staff (8.2%), more G.P.'s (15%), and finally a 31% increase in real terms on N.H.S. spending in Scotland - the projected figure in money terms being £2755 million for 1989-90.

Some interesting issues arise concerning this enthusiastic litany. First it might be asked, given these achievements, whether the major changes in the organisation and running of the N.H.S. that are signalled in the White Paper are really necessary. The tendency for the Government to assert that these changes <u>will</u> improve the workings of the health service and Scotland's health is simply that: assertion.

Second, many of the figures listed as achievements relate to the expansion of <u>inputs</u> into the N.H.S. Very little information is published on <u>outcomes</u>, for the simple reason that little serious information is available in this area. The use of additional resources is no guarantee that the health and welfare of Scotland's citizens will be raised. This point should not be confined to the Government's own presentation of what it deems its achievements; its opponents are if anything even noisier in asserting that more resource use in the N.H.S. will produce a healthier population. The Government is surely right in attempting to provide much more information about the utilisation of resources in the health service, as is indicated at various stages in the White Paper. Scepticism would, however, be in order about the future of the complex contractual system the Government is proposing to implement if it does not provide the resources required for the massive increase in information generation and retrieval that will be needed. It is reported that the Secretary of State for Health, Mr Clarke, has approached the Treasury for additional funding in this respect. Should this not be forthcoming the scepticism would deepen!

Third, the rosy picture presented of the Scottish health service does not allay very real worries concerning the state of Scotland's health. The Scottish Office itself, in its News Release on the publication of Scottish Health Statistics 1988, notes its concern that the number of lung cancer deaths in women was well over twice the figure for the early 1970s, with male deaths from the same cause showing no signs of abating. In this area and other areas such as heart disease Scotland's record is not a happy one. One cannot help wondering if all the effort being put into the 'efficient' running of the G.P. and hospital services might not be at the expense of initiatives in community and preventive medicine. This is not to argue that community and primary health care matters are ignored in the White Paper - clearly G.P.s, for example, can play a major role in prevention and promotion given the right incentives. It is simply a voice of concern over whether there will be an appropriate funding balance in the Scottish health system such that sufficient resources are provided for those areas emphasised in the SHARPEN report (Scottish Health Authorities Review of Priorities for the Eighties and Nineties): service for old people, care in the community, health education, prevention of ill health, health promotion, and services for the younger physically disabled.

The changes in the delivery of health services in Scotland that will be brought about after this N.H.S. review will ultimately be judged on their additional impact, if any , upon the health and welfare of the people of Scotland. 'Value for money' means nothing less than this.

The Labour Market

THE LABOUR MARKET

Employment: Stocks and Flows

Table 1 summarises the most recent available data on employees in employment in Scotland. In the year to September 1988, total employment rose slightly (by 5,000) to 1,884 thousand, a rise of 0.3 per cent. However, male employment actually fell by 9,000 (0.9 per cent) over the period, whilst female employment increased by 14,000 (1.6 per cent). Furthermore, of the latter increase, 6,000 was attributable to part-time employment. Nevertheless, even if "part-time" is interpreted as "third-time", full-time equivalent employment did rise very slightly over year to September 1988 (whereas published data suggest that it almost certainly fell over the year to June 1988). Little should be read into the changes from June to September 1988 since the employment data are not seasonally adjusted. Overall, the recent employment changes do appear to imply modest gains in full-time equivalent employment, although the longer-term trends of declining male employment and increasing female employment are still apparent.

Longer term trends are, as inspection of Table 1 confirms, also continued in the changes in the distribution of employment across industries over the year to September 1988. Thus employment in production and construction industries fell by about 8,000 (-1.4 per cent), whilst that in services increased by around 14,000 (+1.1 per cent). Service sector employment in Scotland is fast approaching 70% of total employment in

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

	Male	Female All	Female Part-time	Total	Production & construc. industries	Production industries	Manufacturing industries	Services industries
SIC 1980					1-5	1-4	2-4	6-9
Scotland								
1979 June	1,205	897	332	2,102	831	676	604	1,224
1983 June	1,060	839	337	1,899	646	512	444	1,216
1986 Sept	1,020	866	367	1,886	595	460	409	1,261
Dec	1,006	868	375	1,874	586	451	404	1,259
1987 Mar	997	865	375	1,862	578	442	396	1,254
June	1,006	880	379	1,886	579	441	395	1,277
Sept	1,001	878	383	1,879	577	437	392	1,273
Dec	996	881	389	1,877	572	432	388	1,278
1988 Mar	989	879	387	1,868	570	429	386	1,271
June	996	892	389	1,888	568	427	385	1,292
Sept	992	892	389	1,884	569	427	387	1,287

Source: Department of Employment Gazette, February 1989 and earlier issues.

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

	Agric./ forestry/ fishing	Energy and water supply	Metal Manuf. & chemicals	Met.goods, Eng. & vehicles	Other Manuf.	Constr- uction
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	178	179	135
1987 Mar	30	46	47	176	173	136
June	30	45	46	177	172	135
Sept	28	45	46	175	171	140
Dec	27	44	46	173	169	140
1988 Mar	27	42	46	172	168	141
June	28	42	45	173	167	141
Sept	28	41	45	175	166	142

	W'sale Dist. hotels & catering 61-63 66-67	Retail distrib. 64/65	T'sport & communi- cation 7	Banking, Insurance & finance 8	Public admin.& defence 91-92	Educ.health & 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	191	108	159	176	436
1987 Mar	189	183	106	161	176	439
June	198	185	108	165	177	444
Sept	202	182	108	164	179	439
Dec	194	191	106	166	179	442
1988 Mar	199	184	105	165	180	439
June	208	185	105	169	181	444
Sept	203	185	103	174	178	443

Source: Department of Employment Gazette, August 1988.

Scotland. This share has increased by ten percentage points over the last decade, in part due to the absolute decline in employment in production and construction industries (of over 30%) and partly due to service sector employment growth (of around 6%).

Table 2 provides a more detailed account of recent changes in the industrial composition of employment in Scotland. Among the production industries "other manufacturing" shed most employment (-5,000, 2.9 per cent), closely followed by "energy and water supply" in which employment fell by 4,000 (-8.8 per cent).

Construction actually registered a 2,000 increase in employment over the period. Among service industries "banking, insurance and finance" registered the major employment gain of 10,000 (+6.1 per cent). Employment in "education, health and other services" rose by 4,000 (+0.9 per cent) and in "retail distribution" it rose by 3,000 (1.6 per cent). Transport and Communication continued to experience employment losses, in this instance of 5,000 (4.6%). Again, the pattern of employment changes is broadly in line with longer term developments.

VACANCIES: STOCKS AND FLOWS

Over the year since January 1988 unfilled vacancies at job centres in Scotland fluctuated between 19.5 (16.8) and 20.6 (22.0) thousands on a seasonally adjusted (unadjusted) basis (Table 3). However, vacancies have been higher (by a little less than 2 thousand) in 1988 as compared to 1987. Indeed a trend increase has been discernible since the "trough" (at around 10.8 thousand) of 1981. However, the stability in the stock of unfilled vacancies conceals considerable activity in terms of monthly gross inflows and outflows (Table 4). These were of a similar order of magnitude to the outstanding stock of vacancies in each month. Accordingly, during 1988 there were a total of over 240,000 vacancies at job centres, well over 80% of which resulted in placings. The short average duration of vacancies is a sign that employers on average do not find it difficult to fill posts because of a continuing slackness in the labour market (although, of course, employers may still find it difficult to recruit specific skills in particular locations).

Table 3 Unfilled Vacancies at Jobcentres - Scotland Vacancies at Jobcentres as at 6 Jan 1989, Thousands

	SEASONALLY ADJUSTED			UNADJUSTED	VACANCIES AT CAREER OFFICES
	Number	Change since prev. month	Average change over 3 months ending	Total	Unad-justed
1988 Jan	19.6	-1.0	-0.3	16.8	0.5
Feb	19.5	-0.1	-0.5	17.0	0.5
Mar	19.8	0.3	-0.3	18.5	0.5
Apr	20.6	0.9	0.3	20.6	0.4
May	20.1	-0.5	0.2	21.3	0.7
Jun	19.6	-0.4	0.0	21.0	0.7
Jul	19.8	0.2	-0.3	21.2	0.6
Aug	20.0	0.2	0.0	20.7	0.6
Sep	20.0	0.0	0.1	21.8	0.6
Oct	20.6	0.6	0.3	22.0	0.4
Nov	20.0	-0.6	0.0	20.5	0.5
Dec	20.5	0.5	0.2	18.8	0.4
1989 Jan	19.9	-0.6	-0.2	17.0	0.5

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

Source: Employment Department Press Notice

UNEMPLOYMENT: STOCKS AND FLOWS

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

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

	In-flow		Out-flow		Thousands of which: Placings	
Date	Level	Average change 3 months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1987 Oct	20.9	0.2	20.1	0.1	17.2	0.0
Nov	21.7	0.6	21.1	0.6	18.0	0.4
Dec	22.1	0.6	22.2	1.0	18.8	0.8
1988 Jan	20.5	-0.1	21.6	0.5	18.1	0.3
Feb	20.2	-0.5	20.6	-0.2	17.3	-0.2
Mar	20.6	-0.5	20.4	-0.6	17.1	-0.6
Apr	20.7	0.1	20.4	-0.4	17.3	-0.3
May	20.8	0.2	20.5	0.0	17.4	0.0
June	20.9	0.1	21.5	0.4	18.2	0.4
Jul	20.1	-0.2	19.8	-0.2	16.6	-0.2
Aug	20.9	0.0	20.7	0.1	17.5	0.0
Sep	21.2	0.1	20.7	-0.3	17.4	-0.3
Oct	21.0	0.3	21.0	0.4	17.6	0.3
Nov	20.9	0.0	21.5	0.3	18.5	0.3
Dec	21.9	0.3	21.1	0.1	18.0	0.2
1989 Jan	20.0	-0.3	20.7	-0.1	17.6	0.0

Source : Department of Employment

new basis to facilitate comparison.

January 1989 saw a fall of some 3.6 thousand (0.2 percentage points) in total unemployment, of which 2.6 was attributable to males and 1.0 to females. In the last quarter of 1988 unemployment also fell by around eight thousand.

Over the year to January 1989 total unemployment fell by nearly 45 thousand, from 300 thousand, or by 1.8 percentage points. This represents a reduction in the level of unemployment, of 16 per cent which, of course, constitutes rather good news for the Scottish labour market. Furthermore, 28,000 of the reduction occurred among males and around 15,000 among females.

This pattern of changes in unemployment, specifically the significant fall in male unemployment, seems a little curious against the background of recent changes in employment. Whilst the latest available data on employment are for September 1988 the apparent paradox nonetheless remains.

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

Date	Male	Female	Total	Change since previous month	Average change over 6 months ending	Unemployment rate percentage of working population
1984	235.2	106.4	341.6			14.0
1985	243.6	109.3	353.0			14.2
1986	248.1	111.8	359.8			14.5
1986 Dec	242.6	104.8	347.4	1.2	1.1	14.0
1987 Jul	232.9	97.8	330.7	-3.2	-3.0	13.3
Aug	229.4	96.8	326.2	-4.5	-3.3	13.1
Sept	226.4	93.9	320.3	-5.9	-3.8	12.9
Oct	223.2	92.3	315.5	-4.8	-5.1	12.7
	(219.8)	(89.6)	(309.4)	(-4.2)	(-4.7)	(12.5)
Nov	220.2	91.1	311.3	-4.2	-4.3	12.5
	(216.7)	(88.4)	(305.1)	(-4.3)	(4.0)	(12.3)
Dec	218.2	90.5	308.7	-2.6	-4.2	12.4
	(214.5)	(87.8)	(302.3)	(2.8)	(-4.1)	(12.2)
1988 Jan	216.0	90.2	306.2	-2.5	-4.1	12.3
	(212.4)	(87.3)	(299.7)	(-2.6)	(-3.9)	(12.1)
Feb	213.5	89.9	303.4	-2.8	-2.8	12.2
	(209.7)	(86.9)	(296.6)	(-3.1)	(-3.7)	(11.9)
Mar	211.6	88.5	300.1	-3.3	-3.4	12.1
	(207.7)	(85.6)	(293.3)	(-3.3)	(-3.4)	(11.8)
Apr	208.8	86.5	294.9	-5.2	-3.4	11.9
	(208.6)	(83.8)	(288.4)	(-4.9)	(-3.5)	(11.6)
May	206.0	85.1	291.1	-3.8	-3.4	11.7
	(202.5)	(82.3)	(284.8)	(-3.6)	(-3.4)	(11.5)
Jun	202.5	83.4	285.9	-5.2	-3.8	11.5
	(199.0)	(80.7)	(279.7)	(-5.1)	(-3.8)	(11.3)
Jul	199.3	82.7	282.0	-3.9	-4.0	11.4
	(196.0)	(79.9)	(275.9)	(-3.8)	(-4.0)	(11.1)
Aug	197.5	82.1	279.6	-2.4	-4.0	11.3
	(194.3)	(79.1)	(273.4)	(-2.5)	(-3.9)	(11.0)
Sept	201.0	82.1	283.1	3.5	-2.8	11.4
	(194.2)	(78.1)	(272.3)	(-1.1)	(-3.5)	(11.0)
Oct	(193.4)	(76.7)	(270.1)	(-2.2)	(-3.1)	(10.9)
Nov	(191.0)	(75.5)	(266.5)	(-3.6)	(-3.1)	(10.7)
(r) Dec	(186.7)	(73.5)	(260.2)	(-6.3)	(-3.3)	(10.5)
1989 Jan(p)	(184.1)	(72.5)	(256.6)	(-3.6)	(-3.2)	(10.3)

Source: Employment Department Press Notices (p) Provisional and subject to revision.
(r) Revised.

For, over the the year to September 1988, unemployment fell by 37,000 of which 25,000 were males. As previous commentaries have noted reconciliation of these data might reflect outflows from unemployment like migration, retiral, or self-employment, but, as yet we cannot discriminate among these alternatives. (There has also recently been some suggestion of under-recording of employment growth, although we are not, as yet, in a position to assess the likely impact of this.)

Table 6 presents recent flows into and out of the unemployment stock. In January 1989 inflows were, at 32.2 thousand, some 10.8 thousand less than in the same month of 1988, although outflows were, at 26.9 thousand, 7.7 thousand less than in January 1988. (Note that these figures are not adjusted for seasonality, and that, on this unadjusted basis, unemployment actually increased in January 1989.) Although gross outflows in January were rather low by recent standards, if they were maintained the unemployment stock of 256.6 thousand would turnover is less than ten months. However, as Table 7 illustrates, "average" unemployment durations belie the widely varying experience of individuals of different ages (and sexes).

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

Month ending	In-flow	Out-flow
1987 Oct	46.7	54.5
Nov	44.0	47.5
Dec	38.2	35.3
1988 Jan	43.0	34.6
Feb	39.8	48.2
Mar	35.6	46.1
Apr	38.3	44.6
May	32.5	45.8
Jun	35.5	44.2
Jul	43.0	41.5
Aug	34.2	40.1
Sep*	43.4	43.3
Oct	37.9	55.2
Nov	36.6	38.4
Dec	33.5	34.3
1989 Jan	32.2	26.9

* The September figures are biased by the postal strike.

Table 7: Unemployment Age & Duration: October 13 1988

Duration of Unemployment in Weeks	Male <25	25-54	55+	All ages	Female <25	25-54	55+	All ages
2 or less	4,498	5,492	1,449	11,500	2,659	2,639	439	5,788
Over 2-4	3,535	3,926	856	8,391	1,932	1,814	272	4,073
4 - 8	7,646	8,238	1,805	17,809	3,507	3,616	541	7,755
8 - 13	4,799	5,827	1,507	12,197	2,475	2,950	493	5,970
13 - 26	9,764	11,418	3,081	24,400	5,291	6,155	1,131	12,665
26 - 52	9,368	14,601	4,943	29,043	4,875	8,046	1,799	14,809
52 - 104	7,900	14,597	5,074	27,601	3,397	4,318	1,887	9,620
104 - 156	2,956	7,648	3,647	14,251	1,462	1,743	1,375	4,580
156 - 208	1,680	5,815	3,332	10,827	833	1,228	1,153	3,214
208 - 260	906	4,433	2,787	8,126	379	727	949	2,055
> 260	1,237	15,656	8,725	25,618	583	1,945	2,426	4,954
	54,289	97,651	37,206	189,763	27,393	35,181	12,465	75,483

Whilst the tone and major features of Scottish employee relations reflect national issues and concerns, four issues, excluding the developments for the provision of training, will be significant in Scotland over the next year.

Firstly, there are a number of employment issues affecting education in Scotland. To a degree the publicity surrounding the current national pay dispute has concealed the continuing declining economic fortunes of a number of Scottish universities and obscured the process of reviewing the provision in individual universities of a number of subjects. Such reviews have led not only to the recommendation to close the Glasgow Vet School but also the ending of teaching and research of individual subjects in particular universities. These developments will ensure that, irrespective of the terms of the pay settlement, a number of Scottish universities will be forced to shed staff, the growth of short term and fixed contracts will continue as will transfers of staff between universities.

Within primary and secondary education the long running issues of surplus teachers, school closures, new methods of pupil assessment, school boards and provisions for schools to opt out continue to adversely affect morale. Proposals to introduce, by 1991 - 1992, schemes of teacher appraisal and development seem set to worsen relations. Teacher appraisal is seen as constituting the core of staff development. Such schemes may constitute a further development of managerialism in schools, especially if they are school based, and influenced by some 'managerial' assessment of school needs. The focus on personal development, rather than on principal training needs arising from national or regional policies, seemed curious as did the method of delivery - an allocation of vouchers to each school. It is possible that this proposal, given the intention to fund the scheme by diverting monies from in service education, represents an attempt to change the nature of training rather than simply to move towards privatising in service development. Developments in England suggest the need for management training and for training in enterprise in education, such themes may feature prominently in the new scheme. it is uncertain as to whether these will address problems of effective teaching or morale. Changes to pay structure and conditions of service feature in further education and reflect developments noted in an earlier commentary.

Secondly, by August the first stages of the Local Government Act requiring compulsory competitive tendering will be effective. Already a number of tenders have been issued, as yet it is unclear as to the extent to which private sector companies will tender for local authority services, nevertheless, most authorities have had to plan for the loss of tenders. As such a number of authorities have reduced recruitment and assessed the extent to which groups could be redeployed. Redundancies seem inevitable. Extensive negotiations have taken place between authorities and their employees as to changes to work practice, hours of work, overtime patterns of supervision and other conditions of service to endeavour to construct tenders which will be successful and hence retain the work within the council. Inevitably such changes have, and will continue to bring about changes to the established bargaining machinery. Compulsory competitive tendering will lead to bargaining at the authority level, with national bargaining reduced to the establishment of general principles. In the longer term it seems likely that further local authority activities will be undertaken by private firms. Traditionally local authorities have been 'good' employers for groups who have often suffered poor employment conditions. Evidence from England suggests that the opportunities for disabled and other vulnerable groups is likely to suffer as a consequence of CCT. In industrial relations terms CCT could lead to bargaining at the functional level within authorities and hence to potential comparability issues between staff in different functional areas within the same authority.

Thirdly, differences in the patterns of regrading for nurses prompt questions as to underlying management policies at the Health Board level. It is difficult to understand why the Greater Glasgow Health Board initially graded 39% of sisters and midwives as Grade G, whereas Lothian felt that 96% of such nurses should be grade G. SHHD figures indicate that generally the Greater Glasgow Health Board chose to rank more nurses in lower grades than other boards. Undoubtedly this has had a long term impact on morale and engendered a greater volume of appeals. Competitive tendering in the health service continues to prompt both debate and sporadic action. The concerns of underpayment and reduced wages could have been avoided if the Government had not opposed private cleaning contractors forming an association with agreement to informally establish minimum wage rates.

Fourthly, a growing cause for concern are tbe implications of the Government's weakened commitment to tripartism. Trade unions represent the working interests of more than half the working population. Nevertheless, in recent years there has been a policy of reducing trade union representatives from the range of public bodies in Scotland. The secretary of the STUC in a letter to the Secretary of State for Scotland, noted the absence of trade union representatives in recent appointments to the SDA, Scottish Health Boards, Highland and Islands Development Board and a number of other Scottish boards. Nationally the trade union movement is to lose appointments to ACAS and to the EOC.

The decline in a number of trade unions in Scotland is prompting need for reform within the STUC. Changes to the current organisation of the general council may well feature in the restructuring of the general council planned for this year. However, constructing a new representative council, which reflects changes in union membership patterns, will not prove simple.

Regional Review

The movements of the Scottish labour market, which is clearly distinct from the rest of the UK's labour market, were discussed in the previous Labour Market section. The purpose of this section is to highlight the variations in trends in unemployment and vacancies which occur both across Scotland and within the local authority regions. The data employed to these ends differ from that used in the previous section. The figures used in the latter were typically adjusted for seasonal factor's, while those used below are unadjusted. At the sub-Scottish level, the denominator used to calculate unemployment rates is defined more narrowly than the Scottish one (which includes estimates of the self-employed and H M Forces). Consequently, sub-Scottish unemployment rates are greater than the Scottish rate and not wholly consistent with it.

The new regulations concerning the entitlement of young people to claim unemployment-related benefits introduced in September 1988, mean that January 1989 data is not directly comparable with that for the previous twelve months. This point is particularly pertinent when interpreting Tables 1 and 2 which look at the annual change in unemployment.

As Table 1 shows, Scottish unadjusted unemployment fell by 64,664 in the twelve months to January 1989 to stand at 269,043. This decline of 19.4%, means that the unemployed now represent 10.8% of the working population. Although this compares favourably with the corresponding figure of 13.6% for January 1988, for the reasons just mentioned, direct comparison of the annual figures is not possible. Unemployment has declined in all mainland regions but the rate of decline has not been uniform. Grampian region experienced the largest decline with 24.4% fewer people unemployed in January 1989 than at the same time in 1988. Falls in excess of 21% were also witnessed in Lothian and Central Regions. A reduction in excess of the Scottish 19.4% average, was recorded in Tayside. As in last quarter, Dumfries and Galloway were the mainland region experiencing the smallest percentage change in unemployment. These changes in unemployment leave Grampian region as the local authority area with the lowest unemployment rate of 6.9%. The Borders, with a rate of 7.4% is not far behind. Despite an 18.3% change in the numbers of unemployed (a fall of some 32,828) Strathclyde still has the highest mainland unemployment rate of 14.4% which compares unfavourably with the 10.8% Scottish average. Differing fortunes in local labour markets are evident in the Islands. Whilst Shetland continues to have a well below-average unemployment rate of 6.7%, the lowest rate of all Scottish local authority areas, the Western Isles, which was the only region to report an increase in unemployment, has the highest rate with 22.2% of its workforce unable to find employment. A disproportionate decline in unemployment has left the Orkney Isles with a rate of 10.7%, just below the Scottish average.

Table 1: Unemployment by Region

	% rate Jan 89	Total Jan 89	Total Jan 88	Total Change	% change in Total
Borders	7.4	2,798	3,460	-662	-19.1
Central	12.6	13,192	16,714	-3,522	-21.1
Dumfries & Galloway	11.1	6,324	7,516	-1,192	-15.9
Fife	12.5	16,732	20,666	-3,934	-19.0
Grampian	6.9	15,806	20,908	-5,102	-24.4
Highland	12.9	11,408	14,011	-2,603	-18.6
Lothian	9.4	34,068	43,872	-9,804	-22.3
Strathclyde	14.4	146,556	176,384	-32,828	-18.3
Tayside	11.1	18,605	23,381	-4,776	-20.4
Orkney Is.	10.7	718	906	-188	-20.8
Shetland Is.	6.7	657	740	-83	-11.2
Western Is.	22.2	2,179	2,149	+30	+1.4
Scotland	10.8	269,043	333,707	-64,664	-19.4

Source: Department of Employment

Table 2: Unemployment by Sex and Region

	No Unemployed January 1989		No Unemployed January 1988		% change since January 1988	
	Males	Females	Males	Females	Males	Females
Borders	1,913	885	2,288	1,172	-16.4	-24.5
Central	9,148	4,044	11,305	5,409	-19.1	-25.2
Dumfries & Galloway	4,036	2,288	4,796	2,720	-15.8	-15.9
Fife	11,613	5,119	14,061	6,605	-17.4	-22.5
Grampian	10,638	5,168	13,960	6,948	-23.8	-25.6
Highland	7,738	3,670	9,539	4,472	-18.9	-17.9
Lothian	24,520	9,548	30,675	13,197	-20.1	-27.7
Strathclyde	108,541	38,015	129,241	50,143	-16.0	-24.2
Tayside	12,961	5,644	15,749	7,632	-17.7	-26.0
Orkney Islands	479	239	603	303	-20.6	-21.1
Shetland Islands	412	245	451	289	- 8.6	-15.2
Western Isles	1,690	489	1,595	554	+5.9	-11.7
Scotland	193,689	75,354	234,263	99,444	-17.3	-24.2

Source: Department of Employment

Table 2 illustrates that female totals for unemployment have fallen more quickly than that for males. In the twelve months from January 1988, female unadjusted unemployment fell by 24.2%, to stand at 75, 354. During the same period, unemployment amongst males fell by 17.3% to stand at 193,689. Only Highland region saw male unemployment decline by a larger proportion than that for females. Lothian region saw the largest percentage change in female unemployment with a decline of 27.7%. At the opposite end of the scale the Western Isles only saw a 11.7% decline in the numbers of females unemployed. Excluding the Western Isles, male unemployment fell in all regions ranging from a decline in 23.8% in Grampian to only an 8.6% reduction in the Shetland Islands. In the twelve months to January 1989, male unemployment saw a 5.9% increase in the Western Isles.

The inter-relationship between the levels of vacancies and unemployment is addressed in Table 3. The vacancy figures presented represent only those unfilled vacancies notified at Job Centres and Careers Offices on the reporting date. Typically, such vacancies are for lower paid and lower skilled jobs and represent approximately a third of the total at any given date. Consequently a complete picture of the current demand for labour cannot be gleaned from published vacancy data. However, vacancy figures provide a useful guide to regional variations and developments.

Notified vacancies are usually recorded to either Job Centres (who mainly deal with openings for adults over 18) or Careers Office (who mainly handle opportunities for young persons under 18 years of age). Occasionally, a vacancy will be notified to both services or to more than one Job Centre and thus will be included in more than one vacancy count.

A broad indication of the numbers of registered unemployed people competing for each vacancy can be obtained from the unemployment/vacancy ratio. The true U/V ratio is likely to be lower than indicated below because registered vacancies account for only a proportion of the total. This effect is partly offset by the fact that not only registered unemployed people will compete for vacancies.

Table 3: Registered Vacancies* and Unemployment/Vacancy Ratios by Region, January 1989

	Total Vacancies	U/V Ratio
Borders	447	6.3
Central	908	14.5
Dumfries & Galloway	410	15.4
Fife	784	21.3
Grampian	2,955	5.3
Highland	604	18.9
Lothian	2,269	15.0
Strathclyde	8,223	17.8
Tayside	786	23.7
Orkney Islands	46	15.6
Shetland Islands	59	11.1
Western Isles	49	44.5
Scotland	17,540	15.3

* Unfilled Vacancies at Job Centres and Careers Offices

Source: Department of Employment

The U/V ratio for Scotland stood at 15.3 in January which does not compare favourably with last quarters ratio of 11.8. Indeed, all local authority regions have ratios higher than last quarter mainly due to a reduction in the number of vacancies reported. Tayside has replaced Strathclyde as the mainland region with the highest ratio, currently 23.7. The ratio for the Western Isles is excessively high at 44.5 which reflects both the increase in unemployment and the decline in vacancies in this region. The low unemployment regions of the Grampians and the Borders have comparatively low ratios of 5.3 and 6.3 respectively.

Variations in labour market constraints occur within regions as well as among them. Intra-regional variations in unemployment are examined in Tables 4 and 5. A Travel-to-Work-Area is an approximation to a self-contained labour market where most commuting to and from work occurs within tbe boundary of the area. It is the smallest area for which unemployment rates are calculated. If the majority of a regions TTWAs have rates in excess of the regional figure, then this indicates the presence of a few areas, possibly even one, with significantly below-average unemployment. As Table 4 indicates, Grampian region illustrates such a case. Eight out of the nine TTWAs have unemployment rates in excess of the regional average, which is drawn down by the large, low-rate TTWA of Aberdeen where only 5.4% of the working population is unable to find employment. Conversely, a low proportion of TTWAs with unemployment rates in excess of the regional average implies the existence of a high unemployment area. Tayside is an example of this. Only two out of Tayside's seven TTWAs have rates above the 11.1% regional average. The high unemployment areas of Arbroath, and to a lesser extent Dundee, with rates of 15.0% and 12.2% respectively, are pulling up the regional norm. Table 4 also indicates the number of TTWA's in a local authority region with rates of unemployment in excess of the Scottish average. The figures confirm Strathclyde as an unemployment black-spot, with all of the regions twelve TTWAs having unemployment levels above that average for Scotland.

Table 4: TTWAs with unemployment rates above the Scottish and Regional Average

	No of TTWAs	No above Scottish Average*	No above Regional Average*
Borders	5	1 (0)	2 (2)
Central	3	2 (2)	1 (1)
Dumfries and Galloway	7	5 (3)	4 (3)
Fife	3	2 (2)	1 (1)
Grampian	9	4 (1)	8 (8)
Highland	8	7 (6)	6 (5)
Lothian	3	1 (1)	1 (1)
Strathclyde	12	12 (11)	7 (7)
Tayside	7	2 (2)	2 (2)
TOTAL	57	36 (28)	32 (30)

* Figures in brackets refer to the previous quarter.

Source: Department of Employment

Table 5: TTWAs with highest and lowest unemployment rates

		%	High-Low	High/Low
Borders	H Berwickshire	12.8	7.2	2.3
	L Galashiels	5.6		
Central	H Alloa	16.6	6.0	1.6
	L Stirling	10.6		
Dumfries and Galloway	H Cumnock and Sanquhar	23.9	16.1	3.1
	L Dumfries	7.8		
Fife	H Kirkcaldy	13.7	4.7	1.5
	L North East Fife	9.0		
Grampian	H Forres	20.3	14.9	3.8
	L Aberdeen	5.4		
Highland	H Skye and Wester Ross	18.8	8.9	1.9
	L Inverness	9.9		
Lothian	H Bathgate	13.2	5.1	1.6
	L Haddington	8.1		
Strathclyde	H Girvan	20.6	9.3	1.8
	L Ayr	11.3		
Tayside	H Arbroath	15.0	6.6	1.7
	L Perth	8.6		

Source: Department of Employment

An indication of the distribution of unemployment within regions can be obtained from Table 5, which indicates for each mainland area the TTWA with the highest and lowest unemployment rates. As was the case last quarter, Dumfries and Galloway's TTWAs exhibit the biggest range in unemployment rates with Cumnock and Sanquhar's 23.9% comparing poorly with Dumfries's 7.8%. The highest to lowest ratio is of the largest magnitude in Grampian where unemployment in Forres is 3.8 times higher than unemployment in Aberdeen. Notable intra-regional disparities in unemployment are also evident in the Borders. Fife region is the area with the lowest range of unemployment and the lowest ratio. This indicates a relatively even distribution of unemployment within the local authority area. Central and Lothian regions also have low ratios.