

Industrial Activity

The Index of Production (and Construction) for Wales is the result of a collaboration between the Welsh Assembly Government and the Office for National Statistics (ONS). The index provides one measure of movements in Welsh industrial output, and is one of the ways in which the strength of the regional economy can be assessed. The index of production includes information on manufacturing, mining and quarrying, and electricity, gas and water supply.

Figures 4 and 5 show recent trends in the UK and Welsh indices of production and manufacturing respectively. Care is needed when comparing these figures with those in previous editions of the *Welsh Economic Review*. For example, in visual terms it is interesting that the index of production line for Wales is now above that for the UK. This is partially as a result of a change in the index base year from 1995 to 2001, and this latter year was a particularly low point on the Welsh index. The ONS first release of these figures makes the point that it is the trends in the individual lines that are important, rather than the strict comparison between UK and Wales index values.

Over much of the period 2002-03 the Welsh index of production fell sharply compared to the trend in the UK index. The peak in 2003Q4 and corresponding trough in 2004Q1 is largely a result of dramatic changes in the output of the electricity, gas and water supply sector. For example, in the period 2003Q3-Q4 the index of electricity, gas and water supply grew by 28%, and then in the period 2003Q4 to 2004Q1 it fell by 8.5%. As highlighted in previous *Reviews* much of this is down to the volatility of output in the electricity

generation sector. The sharp increase in the output of electricity, gas and water supply during 2004Q2 (15.4%) contributed strongly to the growth of the overall production index by 3.3% in the quarter. In overall terms the index of Welsh production is currently close to values in 2001.

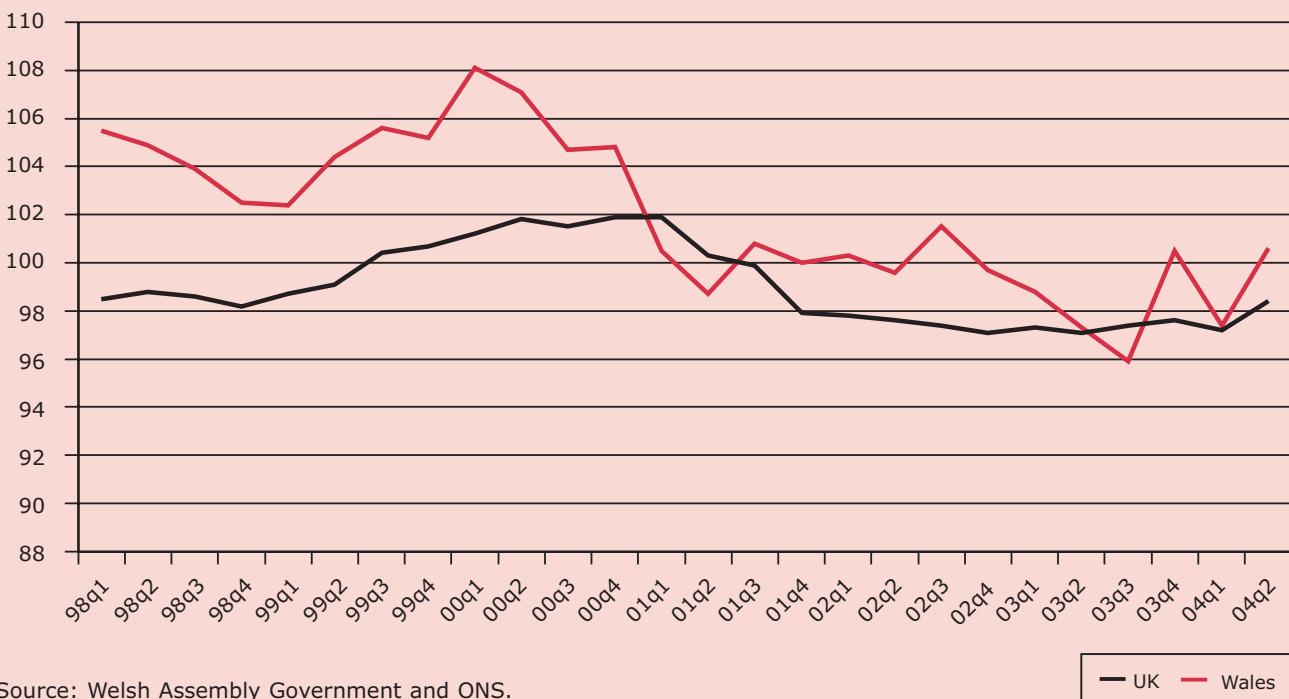
Figure 5 focuses on the Welsh index of manufacturing and perhaps gives a better guide to recent Welsh developments as compared to the UK. In 2004Q2 the Welsh index of manufacturing was just around 2% below its value in 2001. However, during the 2004Q2 the Welsh index of manufacturing increased by 1.8%. Figure 5 shows that the UK index of manufacturing has shown a steady upward trend over much of 2003, and during the first two quarters of this year.

Throughout the last quarter of 2003 and the first half of this year, business surveys covering Wales have revealed a recovery in confidence. In January, the *CBI Quarterly Industrial Trends Survey* pointed to stronger orders and output amongst Welsh respondents. The *CBI Regional Trends Survey* reporting in February showed that total new orders had risen for the third successive

survey, and had been boosted by a recovery in export orders. Encouraging signals continued during the summer months. For example, the July 2004 *Quarterly Economic Survey* from the South Wales Chambers Group revealed that manufacturing respondents were positive about prospects for the third quarter with a 7% rise in employment expectations. The survey also picked up on better investment intentions and an increase in domestic manufacturing sales in the second quarter. Moreover, the Royal Bank of Scotland's *Purchasing Managers Index* (Wales report, July 2004) also pointed to increases in overall business output. Set against this was a report from the TUC (July 2004) revealing that numbers in Welsh manufacturing had fallen by 27,000 since 1998. The TUC report highlighted that the main threats to UK manufacturing as a whole are better productivity and investment records in competitor countries.

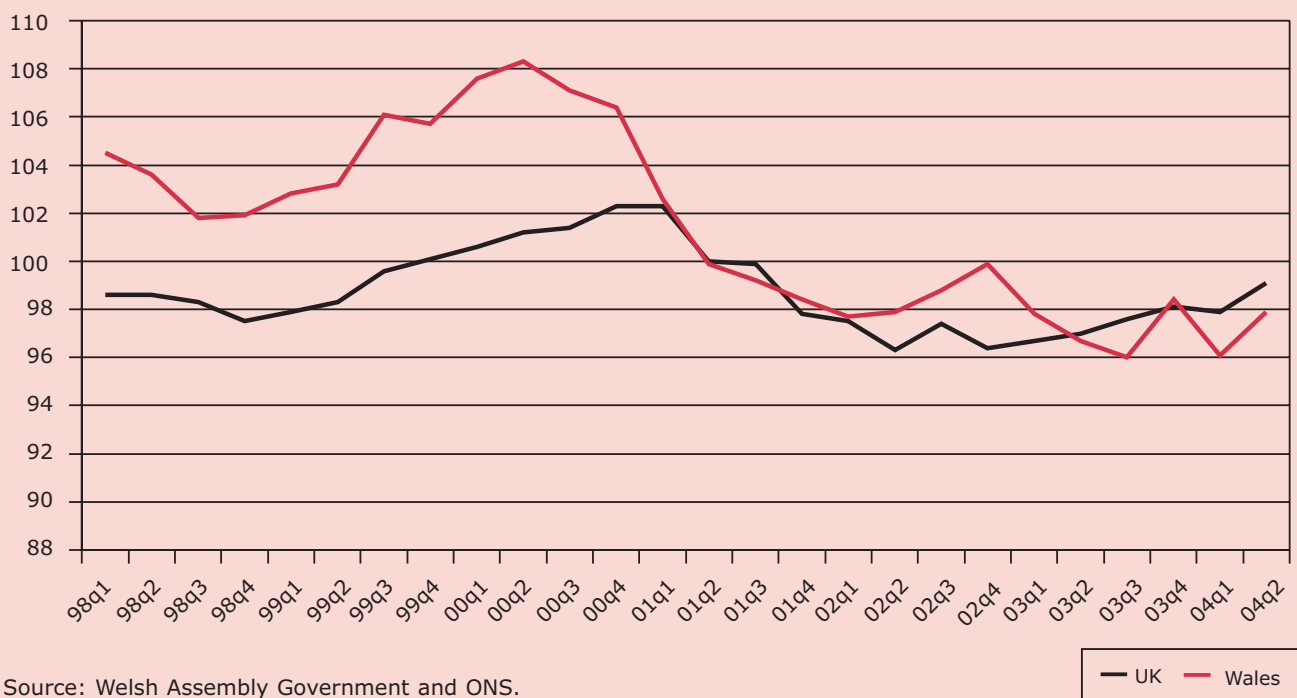
The improvements hinted at by regional business surveys are filtering through to the index of production values for some Welsh sectors. In the second quarter of this year the index of production in food products increased by 5.3%, in basic metals by 3.9%, in machinery by 4.8%,

Figure 4: UK and Wales Index of Production – Recent Trends (2001=100).



Source: Welsh Assembly Government and ONS.

Figure 5: UK and Wales Index of Manufacturing Output (2001 = 100).



Source: Welsh Assembly Government and ONS.

Table 9: Welsh Exports by Commodity Group.

Product sector	Exports from Wales in year to 2004Q2 £m	Change over year to 2004Q2 (%)
Chemicals	1,309	17.8
Engineering	1,132	9.4
Metals	1,097	18.6
Automotive	866	-17.3
Energy	792	9.6
Household goods	452	5.6
IT and electronics	415	3.5
Telecommunications	186	-33.3
Healthcare	167	3.8
Paper and Packaging	164	-0.1
Other goods	802	Na
Total	7,382	5.2

Source: Welsh Assembly Government (October 2004).

and in transport equipment by 6.9%. Poorer performing sectors in the second quarter were textiles where the index fell by 7.7%, pulp and paper (fell by 4.9%), and non-metallic minerals (fell by 5.4%).

It is very difficult to predict the direction of the index overall, but reported improvements in business prospects during the second and third quarters give some grounds for optimism, as does the Diary section of this *Review* which reports significant new investments from some manufacturing companies.

Welsh Exports

Information on Welsh export performance for 2004Q2 has recently been published by HM Customs and Excise. Welsh overseas exports in 2004Q2 were £1.918bn or 4.7% of total UK overseas exports. In the year to 2004 Q2 total overseas exports from Wales had increased by 5.2% , and were an estimated £7.4bn.

The top overseas destinations for Welsh exports in the year to 2004Q2 were Germany (£1.059bn), closely followed by the USA (£0.986bn). Table 9 shows the product composition of exports in the year to 2004Q2. Around one half of

Welsh exports in the year to 2004Q2 were in chemicals, engineering and metals. Key companies in these export sectors include Dow Corning (Barry), General Electric (Caerphilly), and Corus.