

Industrial Production and Regional Exports

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.

Figure 5 shows the index of production for Wales, and then for the UK as a whole. The index for Wales for the latest four quarters fell by 6.3% compared with the previous four quarters. The steep decrease in the Welsh index of production during the latter part of 2004 is alarming, with very little recovery in the index during 2005. This contrasts with the stronger showing of the UK index of production where the fall in output has been less severe. The UK index of production fell by 1.9% over the same period. In the year to 2005Q4 there has been something of a recovery in mining and quarrying output in Wales with the index increasing by 10.2% in the year to 2005Q4. However, this contrasts with the continued poor performance of the manufacturing sector where output was 6.6% lower for the last four quarters compared to the previous four quarters. Figure 6 reveals this poor showing from the regional manufacturing sector.

Further analysis of the data underlying Figure 6 reveals that all manufacturing sectors in Wales saw falls in output when the four quarters of 2005 are compared to those in 2004. Over this period the largest losses were pulp and

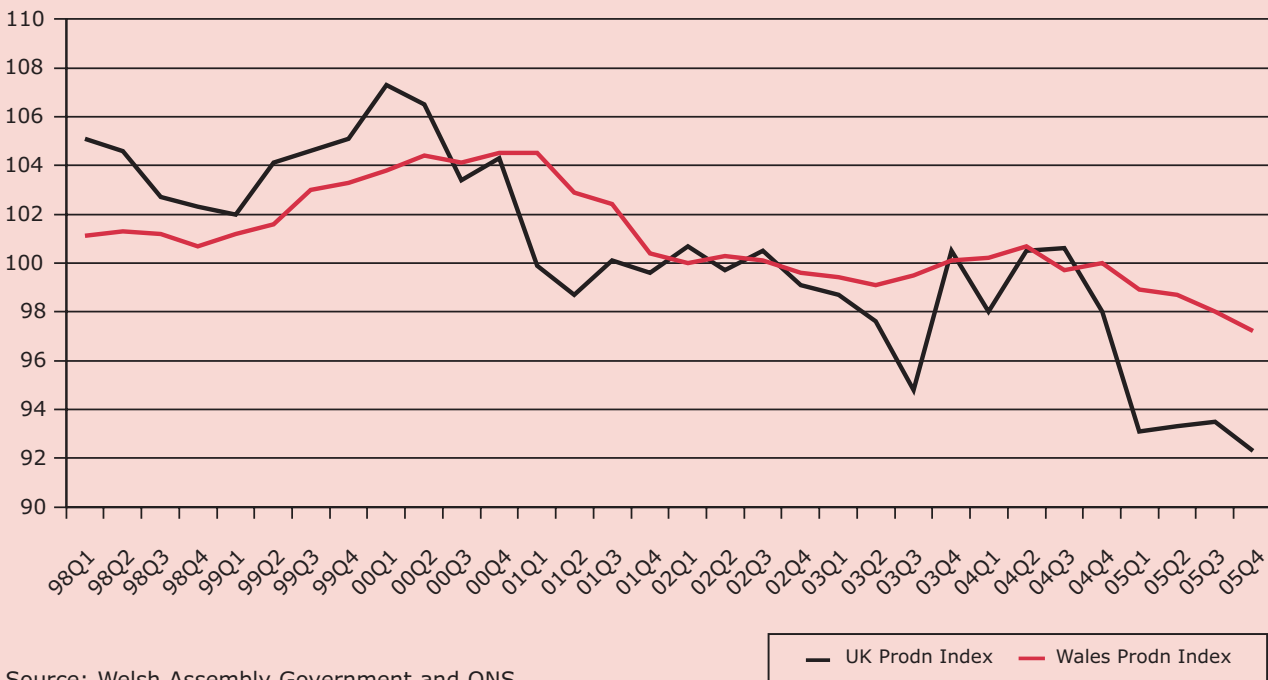
paper (-19.1%, and see below), non-metallic minerals (-4.1%), machinery (-7.5%), electrical and optical (-9.9%) and other manufacturing (-14.7%). In overall terms this means that at the end of 2005 Welsh manufacturing output was around 9% below that of 2002.

There were few signs during the first quarter of 2006 that conditions in manufacturing were improving. In January, the CBI Wales *Welsh Industrial Trends Survey* reported that firms were facing falling orders and output levels, with overall levels of confidence falling in the period following October 2005. The survey revealed that the number of firms operating below capacity was at the highest level since the summer of 2003. Manufacturers in Wales were undoubtedly being hit by increases in energy prices. Indeed this factor is directly threatening employment in sectors such as metal and paper manufacturing. From the second half of last year there have been job losses announced across Welsh sectors. In Caerphilly, Hills Industries announced the closure of their clothes line plant from the summer with 87 redundancies expected. Cheaper far eastern competition was blamed for these

losses. In Cardiff, 30 job losses have been announced at Western Mail and Echo, and a further blow to the paper and publishing sector came with the announcement that DS Smith was closing its Sudbrook paper mill in Monmouthshire with as many as 135 jobs affected. This links to the poor performance of the Welsh index of pulp and paper (above). High energy costs and poor demand were blamed here. The poor recent showing of the electronics sector in Wales looks set to continue with Panasonic announcing in March that it was closing a car speaker making facility in Port Talbot with the loss of 250 jobs. This follows the 500 jobs losses in Panasonic in Cardiff last year as the firm ended production of televisions and set top boxes at its Pentwyn plant. Other recent losses are reported in the Diary section of this review, the most notable being the expected loss of 500 jobs at the DARA jet servicing facility at St Athan.

Losses in manufacturing are contributing strongly to the upward trend in unemployment in the economy. On the positive side have come new job announcements at Airbus, and with more good news in this sector as GE

Figure 5: Index of Production: Wales and UK Trends to 2005Q4



Source: Welsh Assembly Government and ONS

Aircraft at Caerphilly won a new contract at the end of 2005 to service British Airways engines. Other expansions have been announced at Bridgend, with three manufacturers (Days Healthcare, Astra, and Steinhoff) between them announcing over 300 new jobs.

Despite these positive developments it is difficult to see where strong manufacturing growth in Wales is going to come from during 2006-07. New investments, and the employment created by them, are failing to counteract large losses among established inward investors. Many of the larger and more capital intensive manufacturing sectors in the region are vulnerable to further increases in energy prices, with more labour intensive

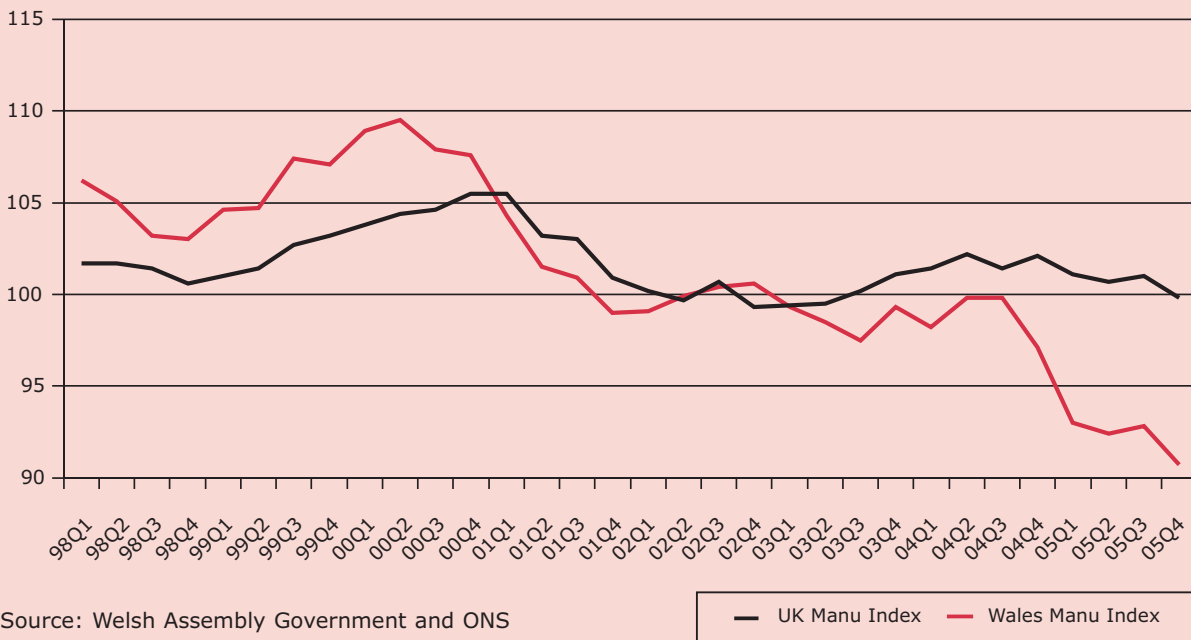
sectors (i.e. parts of electronics) still facing pressures to restructure and rationalise in the face of severe competition from central and eastern Europe and further afield.

In previous issues of the *Welsh Economic Review* we have shown that in spite of manufacturing problems Welsh exports have tended to hold up fairly well. Recent figures confirm this trend. Welsh exports for 2005 increased around 3% on figures for 2004. However, exports of an estimated £2.1bn in 2005Q4 were around 9% down on figures for 2004Q4. The overall increase in Welsh exports in 2005, compared to the previous year, was due to an increase of £436 million in non-EU exports (i.e. an increase of 15.4%), but

with this counteracted by a fall of £198 million in exports to the EU (decrease of 3.6%).

The growth of Welsh exports for 2005 was the lowest among the UK regions, although growth in Welsh exports between 1999 and 2005 was above that for other regions of the UK. Table 8 summarises key statistics on Welsh exports. This reveals the importance of EU markets to exporters in Wales, and that just a few sectors account for the majority of exports. In line with the discussion above, these are the very sectors which have been hit badly by output reductions in Wales during 2004-05, although exports from these sectors have been quite resilient to date.

Figure 6: Index of Manufacturing: Wales and UK Trends to 2005Q4



Source: Welsh Assembly Government and ONS

Table 8 Welsh exports: Key facts at 2005Q4

Total export value 2005	£8.55bn
Total export value 2004	£8.32bn
Change 2005 on 2004	+2.7%
£bn/Share of 2005 exports to EU	£5.29bn (61.9%)
£bn/Share of 2005 exports to North America	£1.50bn (17.5%)
Share of exports in 2005 by sector	
Automotive	9.8%
Chemicals	14.1%
Energy	14.6%
Engineering	16.1%
Metals	19.7%

Note: several pieces of data on which this table are based were provisional.

Source: HMCE.