

# 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 2 shows the index of production for Wales, and then for the UK as a whole. Figure 2 reveals the wide variation in the Welsh index of production in recent quarters. The index increased rapidly during the second half of 2003, with this partly due to a massive increase in the index value for electricity, gas and water supply. However, the large fall in the index during 2004-2005Q2 was due to a major reduction in manufacturing output, with this period seeing a reduction in the stock of foreign manufacturing investment in the region, and the loss of employment to central and eastern Europe and Asia.

The index of production has not fully recovered from the fall in 2004-05. For example in 2006Q2 the overall index of production was around 3% below 2003 levels. Moreover, the index for the four quarters to 2006Q2 fell by 2.8% compared with the previous four quarters. However, between 2006Q1 and 2006Q2 the index grew by 1.5%. Noticeable from Figure 2 is that the Welsh index of production is consistently tracking below the UK index over the last year. As has been stated in previous issues of the *Welsh Economic Review*,

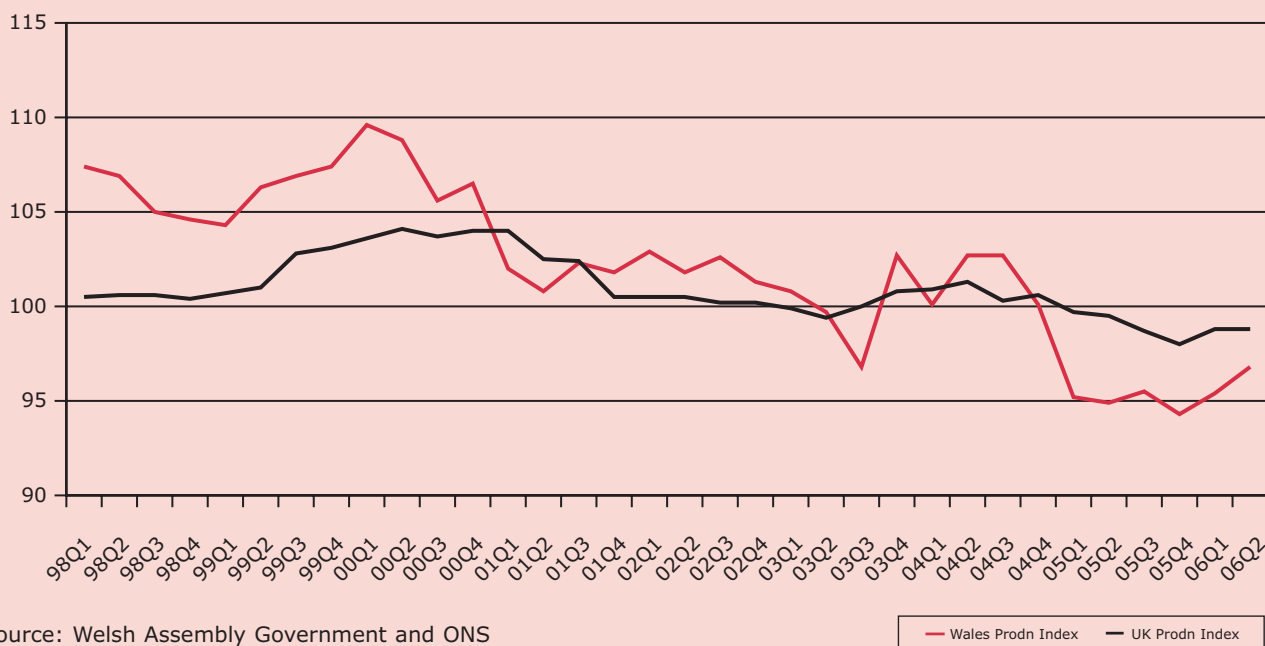
quarterly movements in the overall Welsh index can be strongly affected by movements in individual components of the index. For example, during the quarter to 2006Q2 the index for electricity, gas and water jumped by 7.2%, with this largely down to variation in electricity generation.

The largest component of the Welsh index of production is the manufacturing sector which has a weight of 887 out of 1000 in terms of index compilation. Figure 3 shows the recent trend in the Welsh manufacturing index, and better reveals the reduction in manufacturing output during 2004-05. In 2006Q2 manufacturing output levels in Wales were around 5% below levels in 2003. Over the last few quarters the manufacturing index has recovered somewhat, but it is unclear how far this will be sustained. Recent surveys of business confidence have shown growing optimism amongst Welsh manufacturing. For example, the CBI *Welsh Industrial Trends Survey*, reporting in July, revealed that Welsh manufacturers were fairly optimistic about their future prospects, with recent growth in order books being driven by strong domestic demand, but with

exports fairly flat (see below). Welsh manufacturers were still reported to be struggling to pass on increased energy costs to their customers. Set against this optimism has been mixed news in terms of new openings and closures. For example, in electronics and electronic components closures were announced at Panasonic in Port Talbot (250 redundancies now scheduled for December), and with St David's Assemblies expecting to shed 70 jobs in West Wales in Spring 2007. There are also fresh concerns about the stability of employment in two giants of regional manufacturing, Airbus and Corus. In the case of the steel-maker Corus, a successful take-over by the Indian Tata group would be expected to lead to a reduction in employment and output across the group in the longer term. Details of new openings are found earlier in this issue of the *Review*.

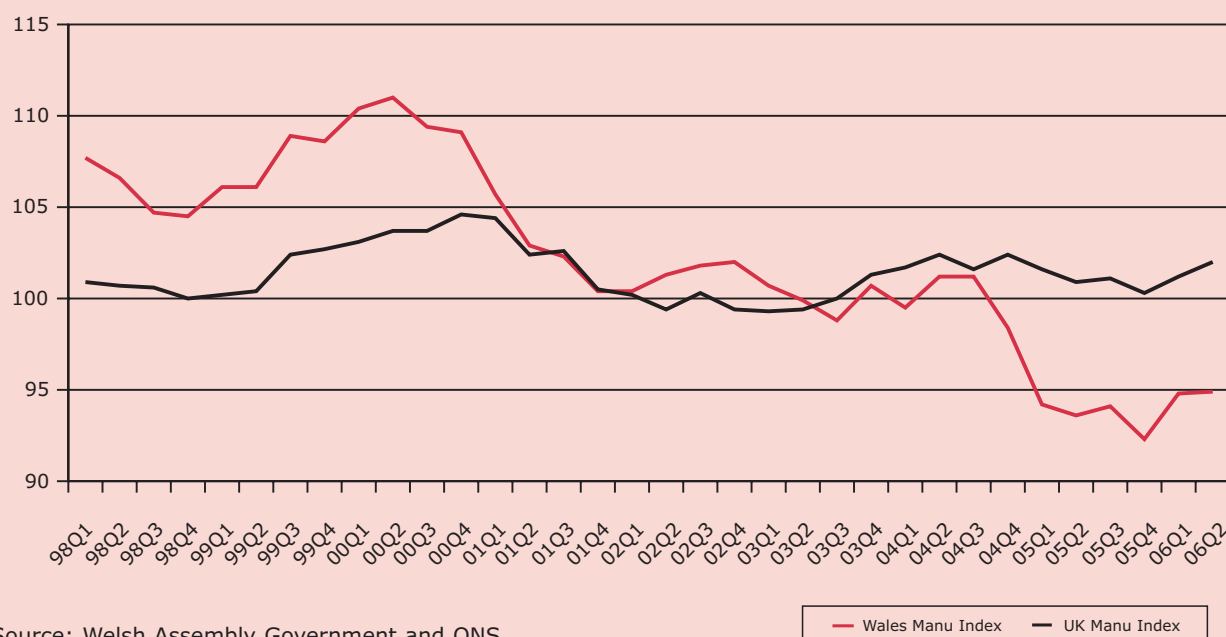
Table 9 shows something of the recent structural change in the composition of Welsh manufacturing output, and reveals how individual sector outputs in 2006Q2 compared to sector outputs in 2003 (the base year of the Welsh index). The biggest losses have been in

Figure 2: Index of Production: Wales and UK Trends to 2006Q2



Source: Welsh Assembly Government and ONS

**Figure 3: Index of Manufacturing: Wales and UK Trends to 2006Q2**



Source: Welsh Assembly Government and ONS

**Table 9: Recent changes in the Welsh index of manufacturing by sector 2003-2006Q2**

Sector	% Change 2003 compared to 2006Q2
Food products	+7%
Textiles, clothing and leather	-13%
Pulp and paper, printing, publishing	-32%
Coke and refined petroleum products	+16%
Chemicals	+11%
Non-metallic minerals	-19%
Basic metals	+14%
Machinery	0%
Electricals	-14%
Transport equipment	-5%
Engineering and allied industries	-10%
Other manufacturing	-15%
All manufacturing	-5%

Source: Welsh Assembly Government and ONS

textiles, pulp and paper, non-metallic minerals, electricals and other manufacturing. The gains over the period have come in the food sector, and then the more capital intensive sectors of metals, chemicals, and oil refining. One underlying message from Table 9 and Figure 3 is that movements in the index of manufacturing will always be difficult to predict and with just one or two major closures in the more capital intensive sectors able to shift the index trend vertically downwards and with limited prospects for recovery.

New information has become available on the level of Welsh exports from the Office for National Statistics. In the year to the end of 2006Q1, it is estimated that the total value of the exported goods and services of Welsh-based firms was around £8.8bn, which was up 2.3% on the previous year. UK exports over the same period were up by 14.1% meaning that the Welsh performance was quite disappointing. Undoubtedly the reduction in manufacturing output revealed in the commentary on industrial production is now beginning to work through to regional export figures.

However, the recent showing of Welsh firms on this important competitiveness indicator needs to be set in the context of the stronger long terms growth of Welsh exports (i.e. an estimated 37% since 1999, set against UK export growth of around 33%). The United States and Germany remain the most important national markets for Welsh firms, but with the detailed statistics also revealing Welsh firms gaining increased orders from states such as Turkey, China and Dubai.