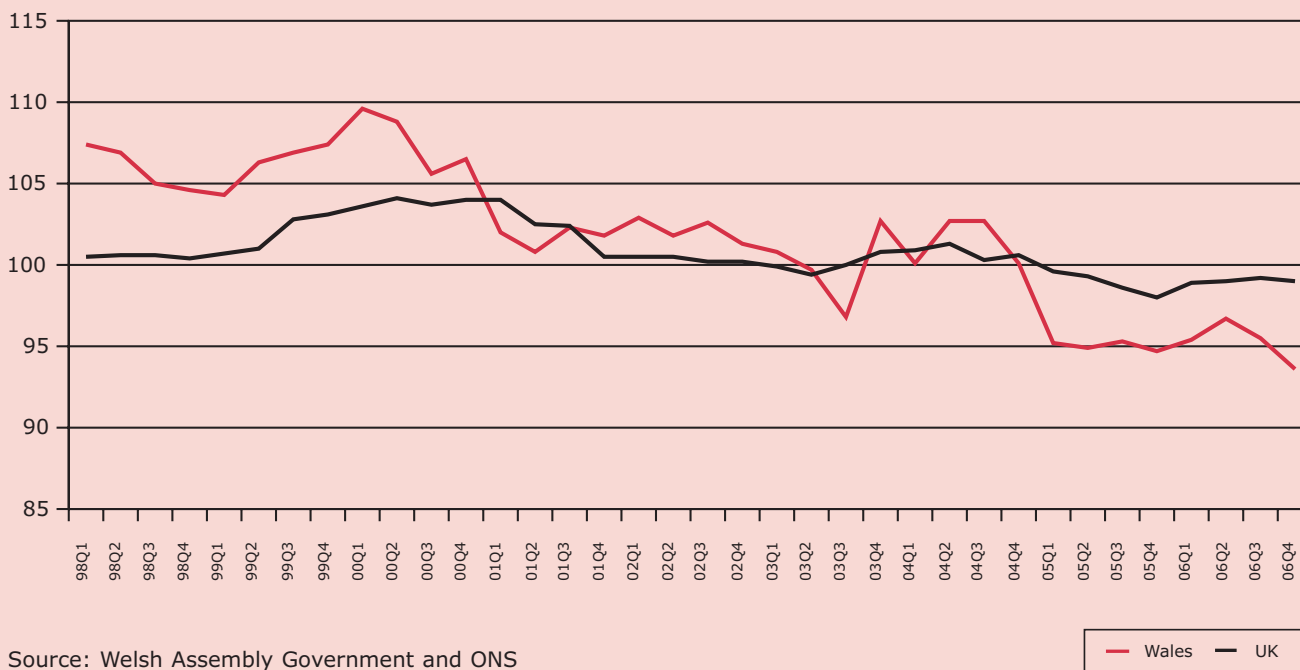


# Industrial Activity

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.

Figure 5: Index of Production, Wales and UK Trends to 2006Q4.



Source: Welsh Assembly Government and ONS

Figure 5 shows the index of production for Wales and the UK. In the final quarter of 2006 the Welsh index was around 6% below the value of the index in the base year of 2003. Moreover, Figure 5 reveals the recent divergence of the Welsh index in comparison to the flatter trend in the UK index of production which has been maintained since 2002. In 2006Q4 the Welsh index was down 1.2% compared to the same quarter in the previous year, whereas the UK index was up by around 1% over same period. The poor showing of the Welsh index of production is largely a result of falling levels of output in manufacturing. The other components of the index (electricity, gas and water supply, and mining and quarrying) have smaller weights, and with output levels in electricity, gas and water supply in 2006Q4 around 10% above 2003 levels (the index base year). Indeed, whilst mining and quarrying output fell by 11.2% between 2005Q4 and 2006Q4 there is some prospect for a sustained recovery in elements of the sector with increasing mining activity expected in the Neath Valley. Countering this is the expected closure of the Tower Colliery in the near future as economic reserves are exhausted (see Political Economy section for more discussion of coal industry prospects).

Manufacturing prospects in Wales remain bleak. Figure 6 shows the widening gap between the Welsh and UK indices of manufacturing during 2006. Last year saw a series of shocks to the sector with employment losses in the automotive components sector, and in textiles, food and electronics. There has been no let up in losses during the first quarter of 2007. Headlines have focused on the closure of the Burberry textile facility in Treorchy. However, the trend shown in Figure 6 evidences wider problems in the sector and a simple lack of location competitiveness. Losses in the first quarter were highlighted earlier in the *Review* but include job losses either announced or occurring at firms such as Alcoa (Swansea), Orion (Kenfig Hill), and Thomson Technicolour (Cwmbran). Potential employment losses at leading firms such as Airbus and Corus (following its takeover by Tata Steel) cannot be ruled out during 2007-08. It is unlikely that the index of manufacturing will recover much during the remainder of this year in spite of the encouraging inward investments described earlier in this issue of the *Review*.

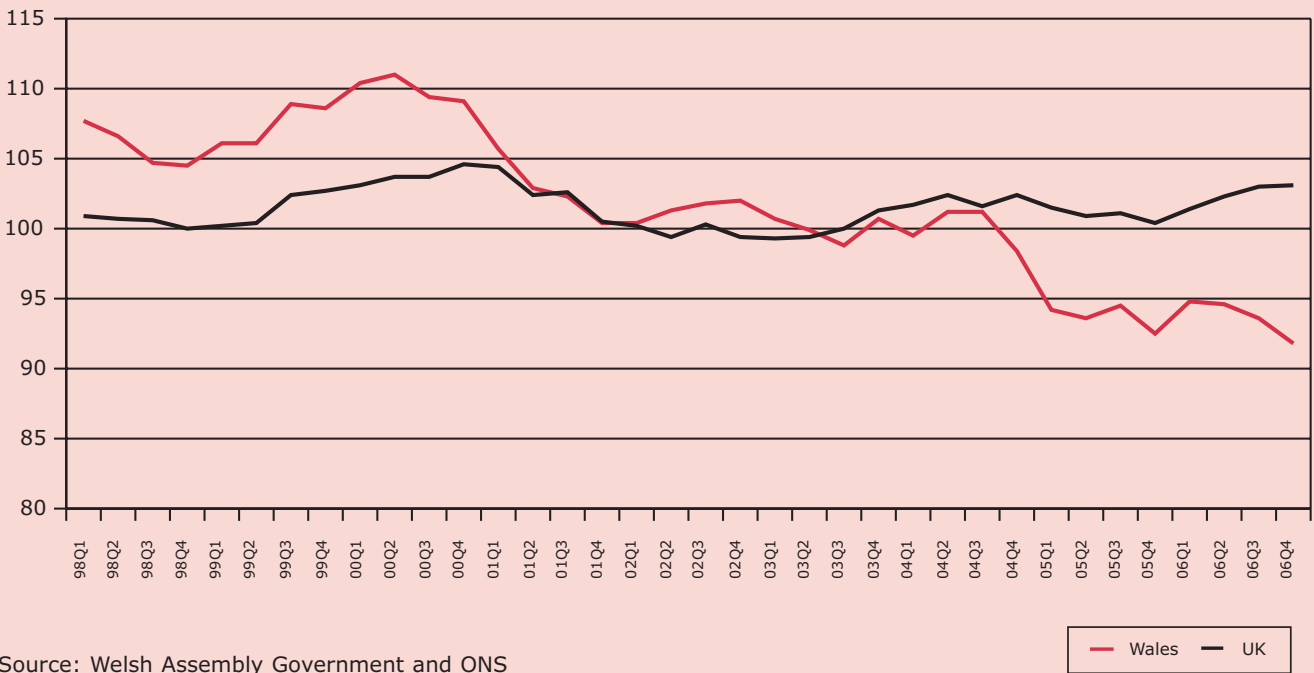
The largest losses in the index of manufacturing were recorded in pulp and paper (down 11.9% in 2006Q4

compared to the same quarter in the previous year), refined petroleum (down 19%), non-metallic minerals (down 9.7%), electrical equipment (down 5.9%). Stronger performing sectors over the period included chemicals (up 5.6%), basic metals (up 3.8%), and other manufacturing (up 8.9%).

The Welsh Industrial Trends survey produced by the CBI for the first quarter of 2007 does however provide some better news, reporting the best rise in manufacturing orders since April 1995. Recent inflationary pressures in China have made Chinese exports less cost competitive, and have reportedly boosted demand for UK manufactured goods.

In addition, the poor showing of the Welsh production industries has still not been fully reflected in a fall in the region's export performance. This noted there is some expectation that Welsh-based firms that are successfully exporting overseas are better able to cope with the pressures that have forced some firms to central and eastern Europe and farther afield. HM Revenue and Customs estimates of exports from Wales for 2006 have recently become available. These showed that the value of Welsh exports in 2006 increased by

**Figure 6: Index of Manufacturing Output, Wales and UK Trends to 2006Q4.**



Source: Welsh Assembly Government and ONS

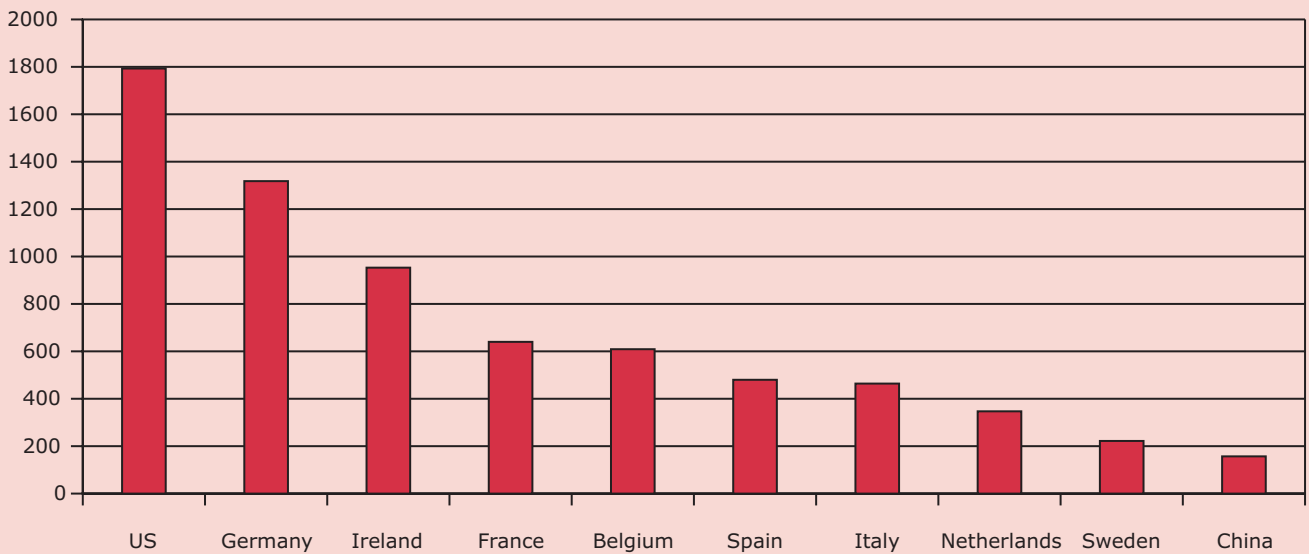
£646m to £9.3bn (up 7.5% compared to 2005). Particularly encouraging here was that during the year exports to non-EU countries had increased by 14.9% whilst exports to EU countries were up just 3.0%. The USA remains the most important national destination (Figure 7), followed by Germany, and then Ireland. These three nations accounted for 44% of Welsh exports in 2006. There has been a gradual shift in the top

destinations for Welsh exports. For example in 1999, the top destination was Germany, followed by France and then the USA. Welsh exports to the USA increased by just over £1.2bn between 1999 and 2006, and to Ireland by £540m, whereas exports to Germany increased by just £47m, and to France by a mere £29m over this period.

In terms of products it is the metals

industry that headed Welsh exports during 2006. Exports of metal products were worth an estimated £1.94bn in 2006, up 15.5% on 2005. This is followed by energy products which were worth £1.77bn in 2006 (up 41.1% on 2005), and then engineering products which were worth £1.48bn (up 5.6% on 2005). Together these three sectors accounted for 56% of Welsh exports in 2006.

**Figure 7: Top Ten Welsh Export Destinations 2006, £m.**



Source: HMCE