

# 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. The series has had several major revisions, the last of which was implemented in the series published in July 2007, and covering the period to 2007Q1. This latest review was undertaken to bring the estimation of production indices into line with methods used to construct other short term output indicators in Wales, and in line with approaches now being used to construct the UK indices of production.

Figure 3 shows the index of production for Wales, and then for the UK as a whole for the years 1998 to 2006. The index base year is 2003. Included here is a figure for 2007 but this is just the average of the index of production values for 2007Q1 and Q2. The index of production for Wales in 2006 was 1.9% lower than the value in 2005. Figure 3 shows that there was appreciable growth in the index of production between 2003 and 2004, but that since this time the trend has been downwards. The value of the index in 2006 was actually just 1.2% above the base, meaning that output in 2006 was around the same level as that in 2003. It is too early to conclude what will occur in 2007 as a whole. However, at the end of the 2007Q2 the index value was 2.1% above the base year, but this value was 0.2% below the value in the same quarter in the previous year.

Figure 3 shows that Welsh production levels from 2004-2007Q2 have been maintained at higher levels with respect to the base year (2003) than has been the case for the UK as a whole.

Trends in the index of production are largely determined by manufacturing

industries. The remaining components, that is, electricity, gas and water supply, and mining and quarrying make up a little over 10% of the index in weighting terms. Interestingly, the most recent figures show that the index value for mining and quarrying in 2006 was around 24% higher than in 2003.

Movements in the index of manufacturing output are summarised in Figure 4, and reveal the poorer showing of Welsh manufacturing compared to what has occurred recently in the UK. For example, between 2004 and 2006 the Welsh index of manufacturing fell by 3.5%, whilst the UK index saw growth of 0.5%. More encouraging for Wales has been growth in the last two quarters. In 2007Q2 the Welsh index was up by 1.9% on the same quarter in the previous year. There has been some convergence between the UK and Wales indices during the last four quarters.

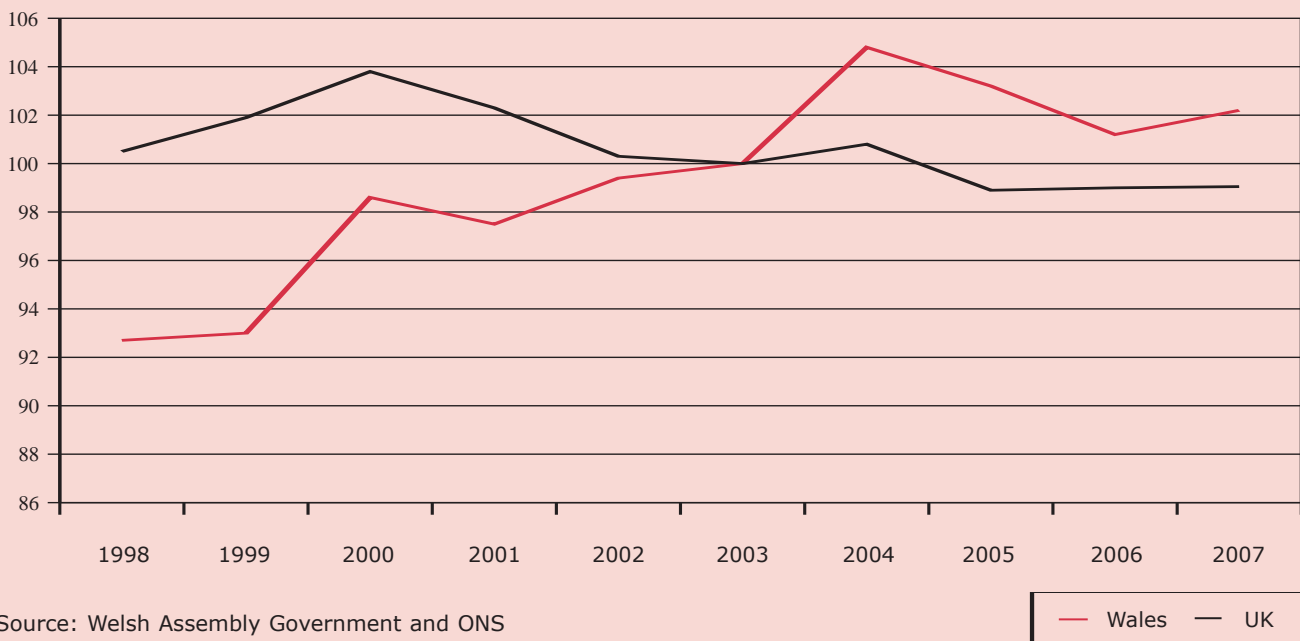
Turning specifically to trends in manufacturing it is possible to examine the percentage change in the latest four quarters to 2007Q2 on a year earlier. The main gains over this period have been in chemicals (up 3.9%), non-

metallic minerals (up 5.5%) and basic metals (up 9.4%). Other major sectors all saw reversals; particularly noticeable were falls in food and drink (down 6.1%), machinery (-4.3%) and electrical and optical goods (-7.1%).

Manufacturing redundancies continued to dominate the business headlines in Wales in the year to 2007Q2. Employers announcing either job cuts or closures have included Hills Industries (90 jobs in Caerphilly) and Orion (100 jobs in plasma TVs at Port Talbot). A big blow for Swansea has been announcements of the closures of the Visteon automotive plant, and with the nearby Alcoa closing its aluminium plant in Waunarlwydd in April 2007, with the loss of 300 jobs as part of the US firm's Europe-wide restructuring programme.

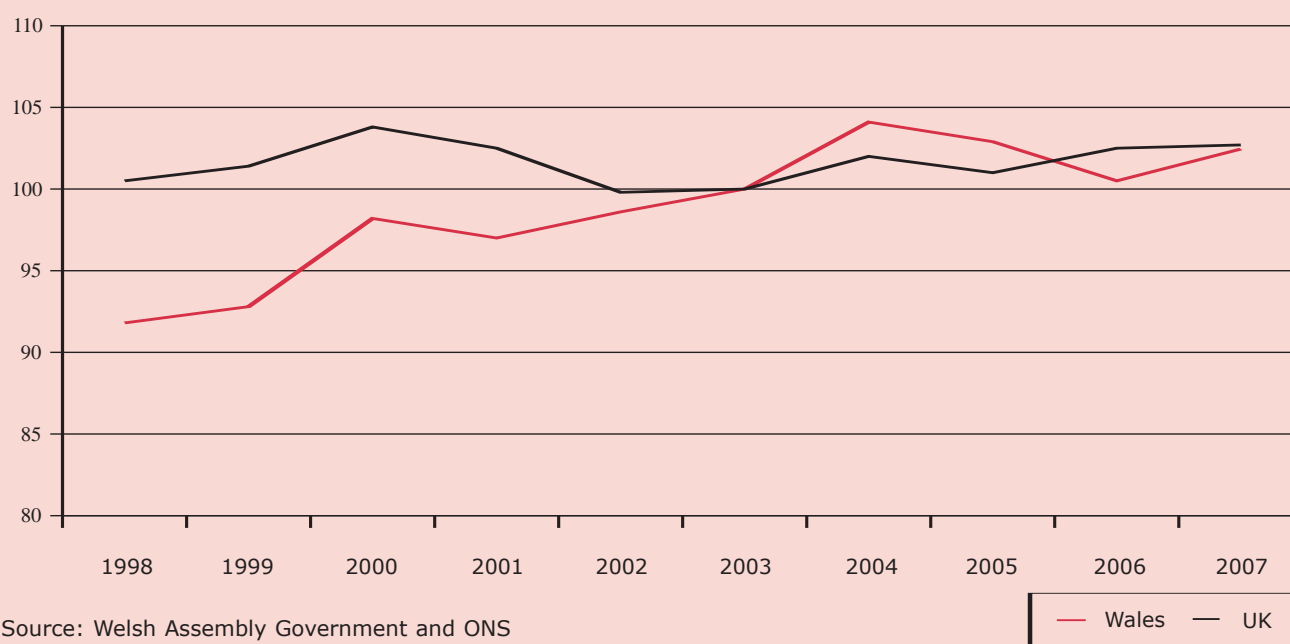
The food sector has also seen heavy losses during the past year, and with this beginning to come through in the food and drink index. In February of this year it was confirmed that Aeron Valley Creamery near Lampeter would close with the loss of 44 jobs. Moreover, a business review by Cranberry Foods has recommended that 400 jobs be cut at its turkey-processing plant in

**Figure 3: Index of Production, Wales and UK Trends to 2007Q2**



Source: Welsh Assembly Government and ONS

**Figure 4: Index of Manufacturing, Wales and UK Trends to 2007Q2**



**Table 9: Recent trends in Welsh Exports and Imports 2005Q2-2007Q2 £m**

| Year and Quarter | Exports | Imports |
|------------------|---------|---------|
| 2005Q2           | 2,204   | 1,708   |
| 2005Q3           | 2,085   | 1,562   |
| 2005Q4           | 2,166   | 1,577   |
| 2006Q1           | 2,347   | 1,661   |
| 2006Q2           | 2,468   | 1,680   |
| 2006Q3           | 2,349   | 1,738   |
| 2006Q4           | 2,253   | 1,788   |
| 2007Q1           | 2,277   | 1,568   |
| 2007Q2           | 2,280   | 1,711   |

Source: HMRC.

Abergavenny, leaving the total workforce at the site at around 120. The company stated it planned to consolidate production at its base in Hollybank, Derbyshire, in response to increased competition, particularly from Brazilian and Polish imports. Finally, G Costa, the speciality and ethnic food manufacturer, announced that it was to close its factory in Abercarn, Caerphilly, with the loss of 151 jobs, and with production expected to move to a lower cost base in Poland. Other more recent losses are summarised in the Comings and Goings section of this Review.

Regional economic forecasting groups such as Cambridge Econometrics were expecting the rate of loss of manufacturing employment in Wales to slow this year from the estimated 3.7% loss experienced in 2006. However, current manufacturing output levels and employment could be sharply affected by a decisions at the falling number of

larger manufacturing employers. One example is Airbus at Broughton employing around 6,000 people. Despite a growing number of orders, the company aims to cut 10,000 jobs across Europe within the next four years. The company has blamed a weak dollar and delays to its A380 superjumbo programme. Jobs in France and Germany are expected to be worst hit but in February 2007, the company also announced it was cutting hundreds of jobs in Broughton and at its base near Bristol. The CBI survey of business confidence reported a fall in optimism amongst Welsh Manufacturers in the second quarter of 2007.

**Regional imports and exports**

New data has become available from HM Revenue and Customs on regional trade in goods up to and including 2007Q2. Total Welsh exports in goods were £2.28bn in 2007Q2 (Table 9). This figure was down 7.6% on the value of exports

in 2006Q2. This result was largely down to a fall in the value of machinery and transport exports. These were £933m in 2006Q2 falling to just £594m in 2007Q2. Over the same period exports to the EU have also fallen from £1.52bn in 2006Q2 to £1.32bn in 2007Q2.

Imports of goods to Wales were an estimated £1.7bn in the second quarter of this year, a little lower than the figure for 2006Q2.

Clearly, much of Wales' trade in goods is with the European Union. However, in 2007Q2 exports to the EU (at £1.32bn) were almost twice the level of imports from the EU (at £0.65bn). The next largest trading partner was North America where exports of £569m in 2007Q2 were a little above imports of £511m.