

Industrial Activity

The focus in this issue of the *Welsh Economic Review* is on the index of manufacturing output in Wales. There is mounting concern regarding cuts in public spending. A corollary is growing interest in how far elements of the private sector will be able to respond and fill gaps left by the reduction in activity in the non-market sector. It is argued here that a strong manufacturing sector will be important to the Welsh recovery.

In 1990 Welsh manufacturing employed around 235,000 people, falling in 2000 to an estimated 201,000 people. By 2008 this had declined further to an estimated 162,000 people or around 14% of Welsh employment. This sharp reduction was caused, in large measure, by the exit of some of Wales' longest standing inward investors. Sectors which experienced the sharpest decreases in the period 2000-08 included clothing & textiles, publishing and printing, metal manufacture and mechanical engineering. However, losses in these sectors were dwarfed by the loss of an estimated 18,000 jobs in electrical engineering, a sector to which Wales had been so successful in attracting investment from overseas in the 1980s and 1990s.

Figure 4 shows the UK and Welsh index of manufacturing over the period 2004 to 2010Q2. The trend in the Welsh index is generally close to that of the UK as a whole. Between 2008Q1 and 2009Q2 the value of the index fell by around 20%. The worst affected sectors over this period included food and drink (a fall of 25% in the index value), transport equipment (29% fall), metals (30% fall), and mechanical engineering (30%

fall).

More encouraging has been the increase in the index after the low point of 2009Q2. In the year to 2010Q2 the index of manufacturing for Wales grew by 3.6%. While this is welcome news, it still means that at 2010Q2 the index value was around 9% lower than it was in 2006. The Labour Markets section of this Review shows that over 30,000 manufacturing jobs were lost over the June 2008 – June 2010 period (Table 5). Wales therefore comes out of recession with around 130,000 manufacturing jobs remaining.

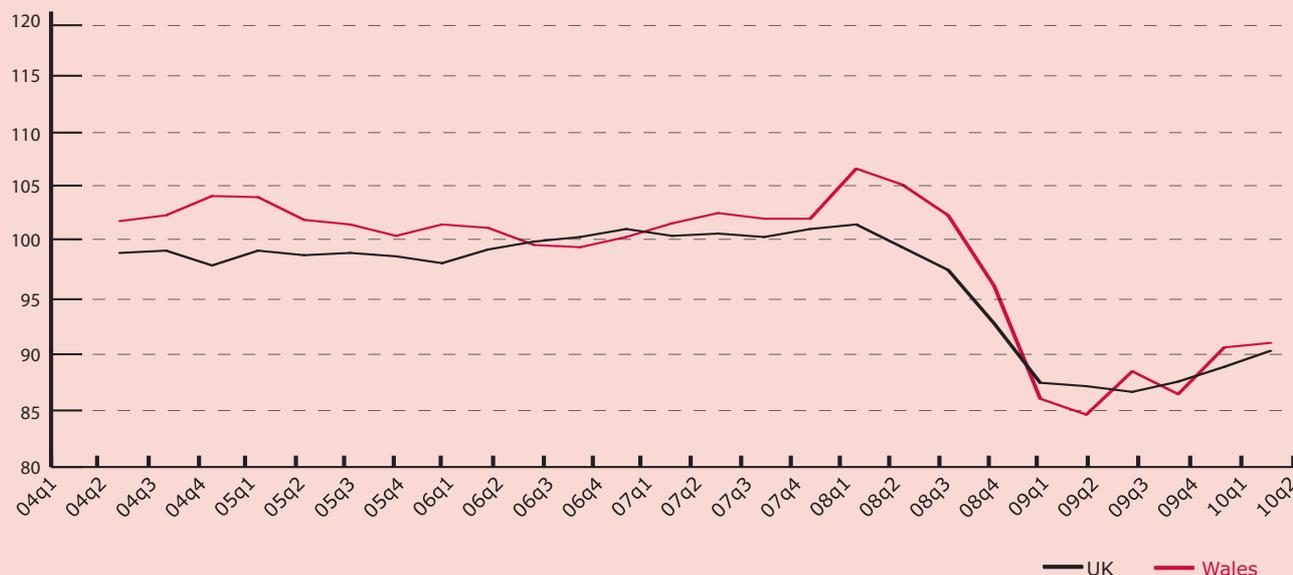
The longer term decline in manufacturing, together with the shorter term described above are a cause for concern. Manufacturing makes an important contribution to the Welsh economy for the following reasons:

- In spite of its falling contribution to Welsh employment, the sector still contributed an estimated 17% of Welsh gross value added in 2010.
- The sector is relatively well paid, with earnings closer to (or even above) UK averages, when compared with financial and business services, for example.

- Full time as opposed to part time employment is more prevalent in manufacturing than services.
- The sector purchases regional goods and services which then support significant indirect employment in Wales.
- The foreign-owned manufacturing sector in Wales has been connected to more subtle developmental processes including productivity and knowledge spillovers to domestic firms.

Manufacturing also makes a large contribution to Welsh exports. However, the value of Welsh exports fell during the recession. For example, in 2008 HM Revenue and Customs data revealed that Welsh exports were £10.64bn, falling to £9.01bn in 2009 (i.e. a fall of 15.3%). Latest data is available for 2010Q2 and suggests exports were making a slow recovery. In the first half of 2010 the value of Welsh exports was around £4.3bn, compared to £4.7bn in the same two quarters in 2009. Manufacturing still contributes the lion's share of exports. For example, in the year ending 2010Q2 manufacturing contributed an estimated £5.6bn out of £8.7bn (around 64%) of Welsh exports.

Figure 4: Index of Manufacturing: UK and Wales 2004-2010Q2 (2006=100).



Source: Office for National Statistics and Welsh Assembly Government

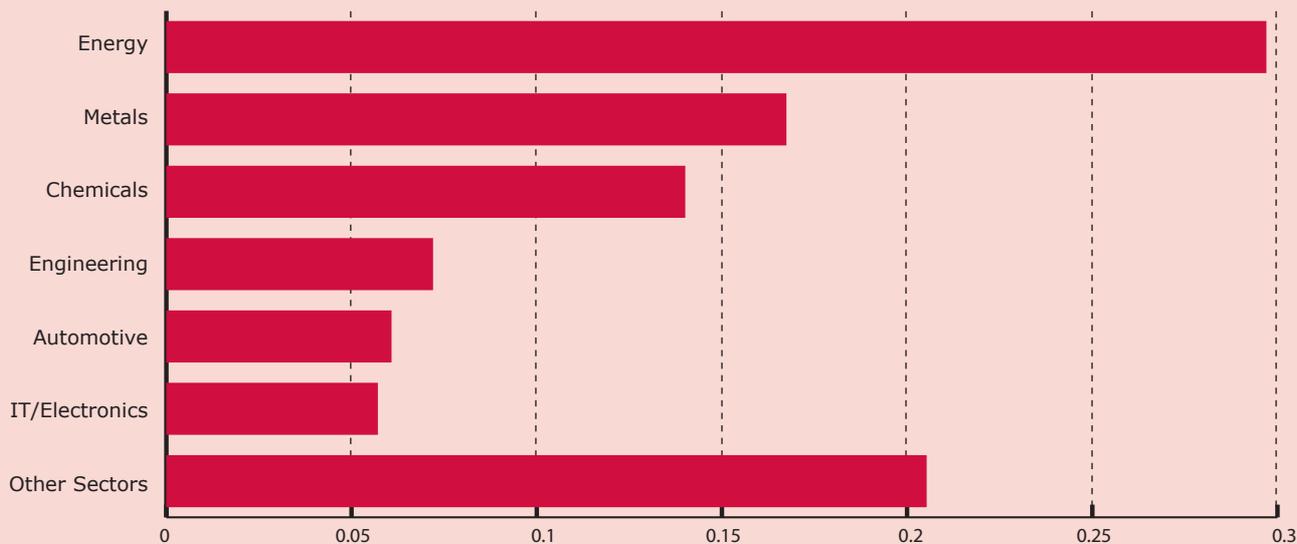
Key exporting sectors include metals, chemicals, engineering and automotive (see Figure 5).

On the basis of the above analysis a strong manufacturing sector will be important to the Welsh recovery in

2011-2012. Consequently, it will be important to conserve the manufacturing base and to continue to attract new inward manufacturing investment from overseas. While encouraging indigenous manufacturing, and services sectors is important, the

attraction of high quality manufacturing investment from overseas has been shown to produce strong economic dividends for the region. For these reasons policymakers should monitor current trends in the regional manufacturing base very carefully.

Figure 5: Key Welsh exporting sectors (% of total exports in year to 2010Q2)



Source: HMCE