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The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes understanding and informs decision-making. The 'core' section of the *Review* is written by members of WERU, with feature articles contributed by academics or practitioners within or outside Wales. The *Review* is circulated widely within Wales, to both private and public sector organisations, including the education sector and the National Assembly.

Notes for Contributors

Authors should send papers for potential publication in the *Welsh Economic Review* to the Editor at the address given below, preferably via e-mail in a Word for Windows format. Papers are welcome on any topic that would be of general interest to the readership, and should be written in a style suitable for non-specialist readers. Papers should be approximately 3,000-4,000 words and any graphs or figures should be accompanied by the underlying data to allow reproduction.

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Industrial Activity

The Index of Production and Construction provides a general measure of changes in industrial output. The index is produced jointly by the Statistical Directorate at the Welsh Assembly Government and the Office for National Statistics, with the majority of data to construct the index being derived from the ONS's monthly production inquiry.

The previous issue of the *Welsh Economic Review* reported a poor performance of the index of production and construction for Wales. Results for 2001Q3, however show an upturn in the overall index (see Table 12). This upturn is somewhat of a false dawn, being related to recent developments in the electricity, gas and water sector and in the construction sector. During 2001Q3 Wylfa power station on Anglesey went back into production (Wylfa had been closed for many months but previously had supported around half of Wales' energy demands). Whilst the energy sector is a small part of the overall index of production and construction, the increase of around 35% in this sector, and the 9% increase in construction more than compensated for declines in manufacturing and extraction output over the same period, pushing up the overall index during 2001Q3.

The index for production and construction in Wales, whilst increasing slightly in the most recent period, is still well below the average index rate for the UK. All key components of the UK index are above base (1995=100) levels. For example, in 2001Q3, the index value for the mining and quarrying sector in the UK was almost 105 (compared to 61.5 for Wales), with UK energy and construction sectors recording values of around 114.

Manufacturing

Unfortunately the index of manufacturing output in Wales

continued to fall in 2001. By 2001Q3 the index stood at levels almost 5% below those of 1995. Figure 4 shows that whilst the UK index has also fallen during this period, the Welsh/ UK manufacturing output index gap has widened, as Wales has experienced disproportionate reductions in manufacturing activity. The largest declines in output occurred in electronics (down by 6.4% over the last quarter and by 25% over the year to 2001Q3, see previous issue of the *Review*, pp28-29, for commentary on this sector) and textiles, where output declined by similar percentages during the quarter and over the year. Other sectors experiencing large falls in output were basic metals and metal products, and engineering and allied industries, with output in both of these sectors falling by around 14% in the year to 2001Q3. Sectors recording small increases output for the year to 2001Q3 include non-metallic mineral products and transport equipment.

Prospects for Welsh manufacturing into the remainder of 2002 are uncertain. In part this reflects poor UK manufacturing conditions. The CBI Industrial Trends Survey for March 2002 showed that UK order books were still weak. However, 26% of manufacturers did expect an increase in output in the four months after March. The survey found that export orders had picked up in the first few months of 2002, but this was countered by a fall in domestic orders. Manufacturing conditions in Wales are not expected to be radically different from those at the national level.

There were several job loss announcements during the first quarter of 2002. In March TRW, the US-owned automotive components producer announced that it was intending to sell off its plants at Pontypool and Resolven (near Neath). Together the plants employ around 1,750 people. If taken over there are concerns that staffing levels at the plants will be reviewed. In the electronics sector, Sharp at Wrexham announced 300 redundancies during March. As with other elements of the foreign-owned electronics sector in Wales, Sharp is having to review its local operations due to the growing price competitiveness of imports. In the engineering sector, John Curran of Cardiff announced it was closing in February with the loss of nearly 30 jobs.

Fortunately not all manufacturing news has been this poor. Firms reporting expansions in the first quarter included G-Plas Plastics (Caerphilly), Eye on the Future (producing facial and voice recognition technology at St.Asaph), and Biotrace (50 new jobs at Bridgend making hygiene testing equipment). In the food and drink sector, Caernarfon based Cwmni Cig Arfon reported in February that it was investing in a new processing plant, while new investment was also reported by Brecon Carreg Spring water with 19 new jobs expected. Important news in the first quarter was that Virgin Atlantic Airways placed a £1.35bn order for 10 Airbus A340-600 jets. The contract will help to secure employment amongst 3,000 employees producing wings for these jets at Broughton.

Table 12: Indices of Output for Wales (1995=100)

	Production & Construction	Manufacturing	Mining & quarrying	Elect, Gas, & Water	Construction
1995 weights per 1000 for Wales	1000	752	26	82	140
2000 Q3	99.6	105.1	62.8	83.0	86.8
Q4	98.6	104.4	67.9	85.5	81.1
2001 Q1	95.6	100.2	65.3	83.3	83.4
Q2	91.7	97.0	65.0	78.1	76.1
Q3	93.2	94.8	61.5	105.1	82.8

Source: Welsh Assembly Government.

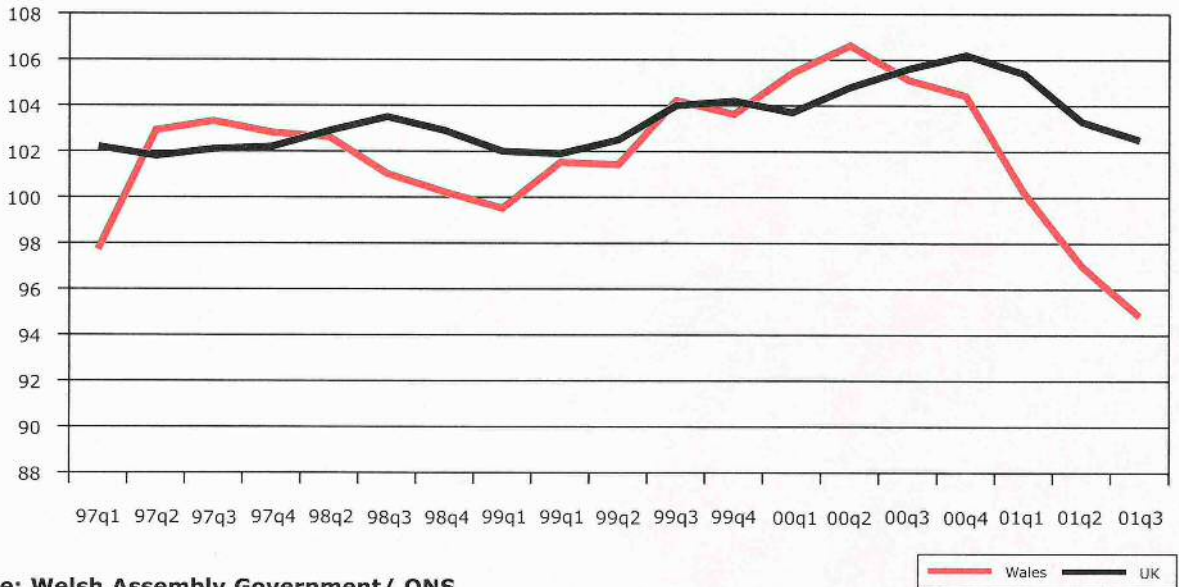
Regional trade in goods

Despite the sharp fall in manufacturing output over the past year reported above, the value of overseas exports and imports from and to Wales remained relatively stable over the same period (see figure 5), although the

value of Welsh exports and imports both dipped slightly in 2001Q3. In the year to 2001 Q3, the regional trade in goods data, collected by HM Customs and Excise, showed that Wales maintained a trade in goods surplus, with overseas exports exceeding imports in each

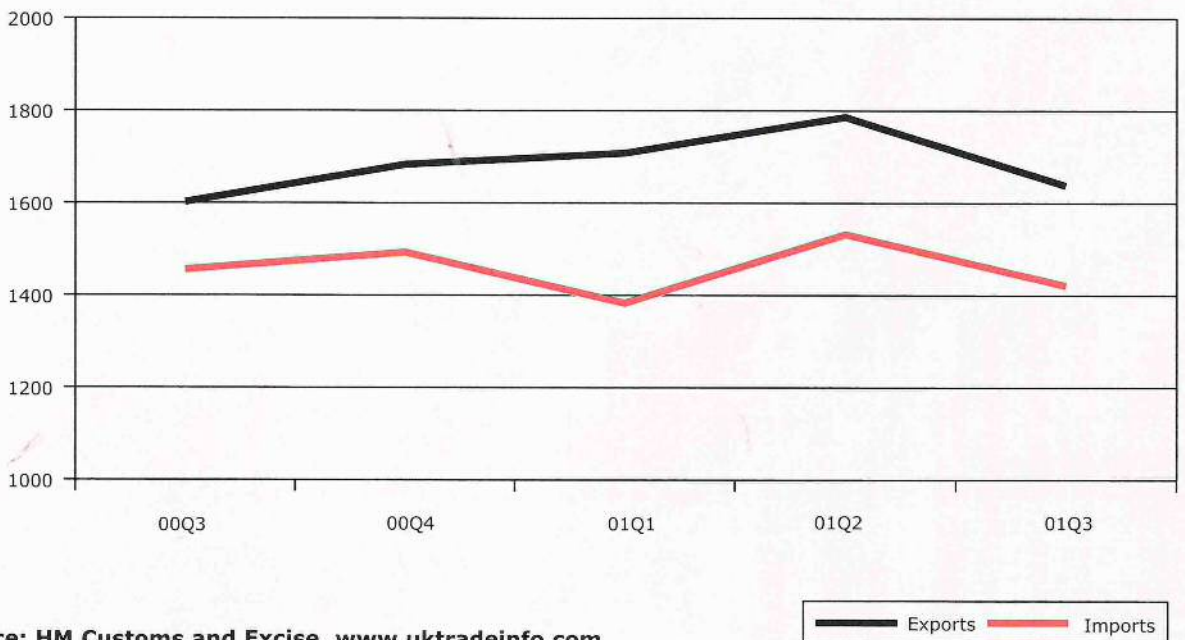
period. This contrasts with the picture for the UK as a whole, where imports exceeded exports. Welsh exports accounted for around 4.3% of total UK exports during 2001Q1-Q3, with Welsh imports representing just 2.7% of the UK total over the same period.

Figure 4: Index of Manufacturing Output, Wales and UK, 1997Q1 - 2001Q3, 1995=100.



Source: Welsh Assembly Government/ ONS

Figure 5: Welsh Exports and Imports £m, 2000Q3 - 2001Q3



Source: HM Customs and Excise, www.uktradeinfo.com