

~~MB~~
19 DEC 2003

CARDIFF
BUSINESS
SCHOOL

Welsh Economic Review

Volume 15.2 Autumn 2003

Sponsored by

SUSTAINABLE
REGIONS

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 combines information on manufacturing, mining and quarrying, and electricity, gas and water supply.

Figures 10 and 11 show recent trends in the UK and Welsh indices of production and manufacturing. The figures demonstrate the poor performance of the Welsh index compared to that of the UK. By 2003Q2 levels of industrial production in Wales were almost 12% below those of 1995. In the year to 2003Q2 the Welsh index of production fell by 7.5%, compared to a fall of 0.7% in the UK index. Manufacturing industries account for over 85% of the index of production, and in these industries output fell by 6.9% in the year to 2003Q2, whereas the UK index of manufacturing maintained its value over the year to 2003Q2 (figure 11).

Unfortunately, the much headlined growth in Welsh total employment (see Political Economy section of this Review) has tended to obscure the poor state of the regional manufacturing sector. The trend in Welsh manufacturing employment and output in comparison to the UK average is expected to have been one of the factors that are serving to widen the GVA per capita gap between Wales and the UK. The state of regional manufacturing has now come under House of Commons scrutiny with the Welsh Affairs Committee holding an

investigation during the autumn of this year which will investigate the development and problems facing the sector, and the appropriateness of the regional, national and European policy response.

Very few of Wales' manufacturing sectors have been able to buck the trend displayed in the overall index. Sectors showing the largest reductions in output in the year to 2003Q2 included textiles (10.9% fall in output), paper products (16.2%), basic metals (17.3%), and electrical and optical equipment (20.2%).

The poor performance of the electrical and optical sector owes much to continuing closures and rationalisation amongst the foreign-owned sector. During this year LG Phillips Displays at Newport has virtually ceased operations. In June the Japanese-owned Sanken Power Systems at Abercarn announced 90 job losses, and Hoya Lens announced during the summer months that it was moving production of lenses to Thailand, with the loss of 240 jobs at its Wrexham facility. More reassuring was an announcement from Sony at Bridgend that there would be no job cuts

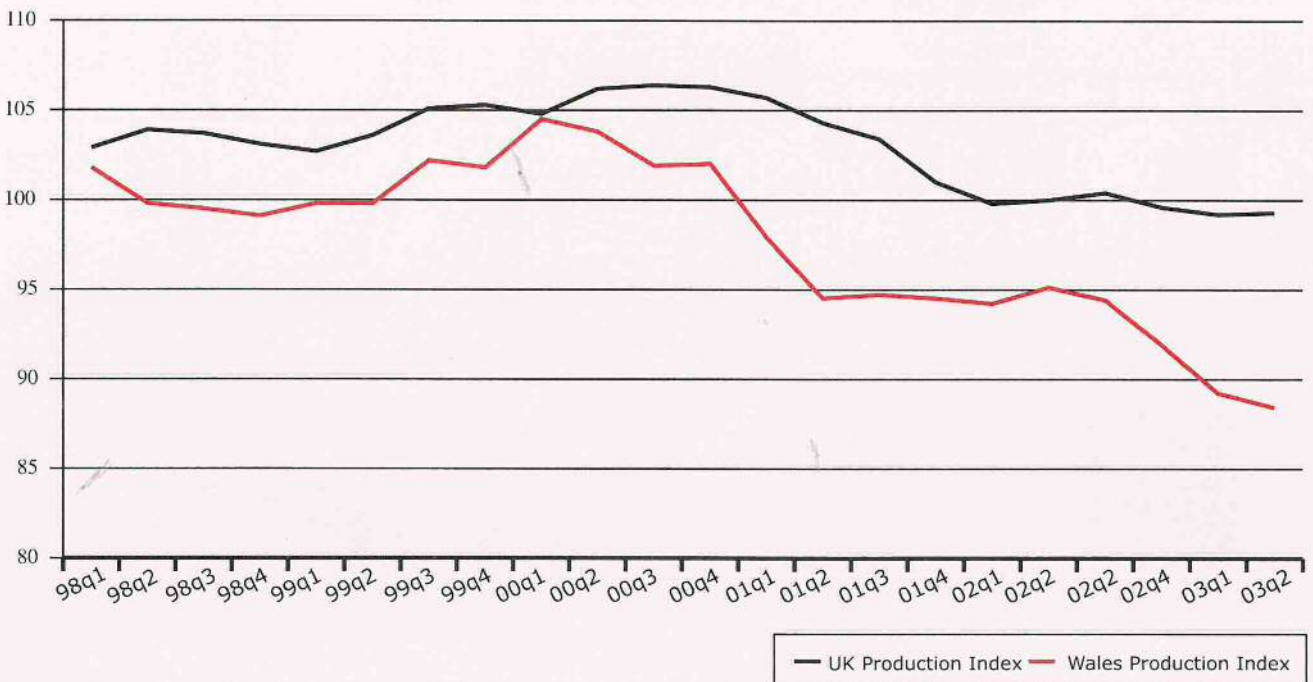
amongst its 2,400 staff following the poor performance of its Japanese parent firm.

In basic metals much of the output is concentrated in Corus operations throughout Wales. In May the firm announced 95 job losses at its Shotton plant, although with better news at the Port Talbot mill with production expected to increase during this financial year. During the summer production was restarted at the former ASW plant in Cardiff by new owners Celsa. In October the company was given planning permission for an extension to the rod mill building.

The food and drink sector largely maintained its output in the year to 2003Q2. Prospects in this sector remain comparatively strong. Firms in the food and drink sector announcing new investment and employment opportunities during 2003 included Rachel's Dairy (Aberystwyth), Memory Lane Cakes (Cardiff), and Belgian firm Interbrew, at Magor, near Newport.

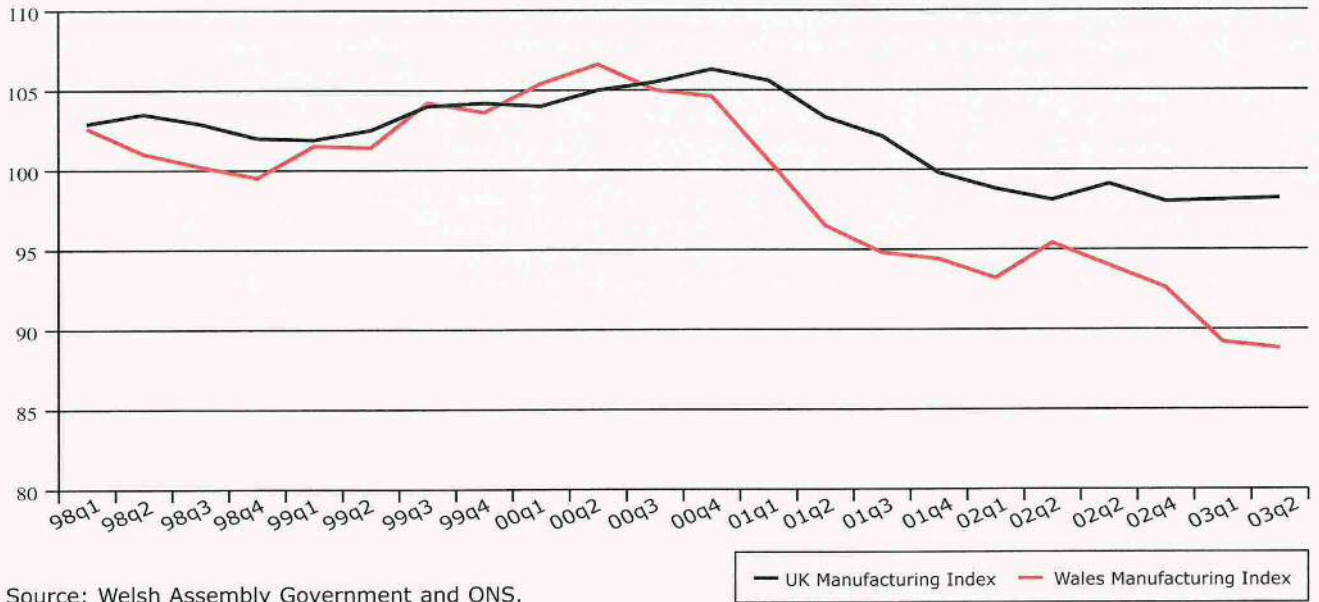
Transport equipment has been the strongest Welsh manufacturing

Figure 10: UK and Wales, Index of Production, Recent Trends, 1995=100.



Source: Welsh Assembly Government and ONS.

Figure 11: UK and Wales, Index of Manufacturing Output, Recent Trends, 1995=100.



Source: Welsh Assembly Government and ONS.

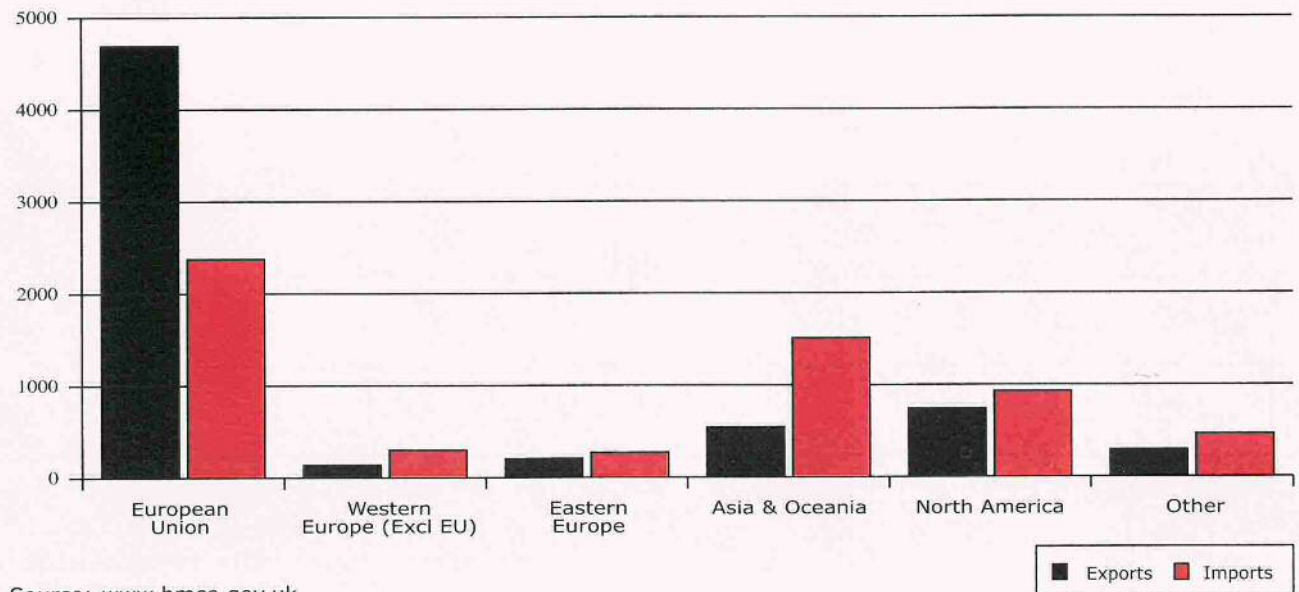
Table 7: Welsh Trade in Goods (£m).

	2001	2002	2002 Q3	2002 Q4	2003 Q1	2003 Q2
Imports outside EU	3710	3475	748	853	780	743
Imports from EU	1999	2376	580	613	604	599
Total Imports	5708	5851	1327	1466	1384	1342
Exports outside EU	2311	1928	460	556	573	681
Exports to EU	4788	4691	1115	1249	1217	1180
Total Exports	7099	6619	1575	1805	1790	1861

Source: www.hmce.gov.uk

Note: Figures may not sum to total due to rounding.

Figure 12: Welsh Imports and Exports by Country Group, 2002, £m.



Source: www.hmce.gov.uk

performer in the year to 2003Q2 with output increasing by 13.3%. In May, Toyota's engine plant on Deeside announced that 700 jobs were to be safeguarded with production of a new diesel engine for the Corolla model. At Miskin in South Wales the German firm Bosch announced in the summer that production is to begin on a new model of alternator, and that over 1,000 jobs would be safeguarded. Prospects also remain good in the aerospace sector, with, for example Nordam Europe (aero-engine repair) and Britax (Cwmbran - aeroplane seating) both announcing new investments that could provide over 400 jobs.

Recent surveys of Welsh industry prospects have been mixed. In June Experian Business Strategies reported that they expected manufacturing output in Wales to grow by 0.5% in

2003, and by 2.1% in 2004. In addition a Business in Britain survey from Lloyds TSB in August reported that nearly half of exporting firms in Wales recorded an increase in sales in the first half of 2003. However, the overall expectation is that the Welsh index of production is unlikely to recover quickly. Indeed, short term improvements in the overall index are more likely to reflect improvements in the electricity, gas and water supply component as opposed to the manufacturing component of the index.

International trade

Table 7 shows that in 2002 overseas exports of goods from Wales fell to around £6.6bn, and imports increased slightly to £5.8bn. The latest data, for 2003Q2, shows an increase in exports to non-European Union countries, which more than offsets a fall in EU exports compared with the previous quarter.

Whilst both import and export values have changed over the period, the Welsh economy has maintained a trade in goods surplus.

Figure 12 shows the distribution of Welsh exports and imports by country group. The European Union is Wales' largest trading partner, accounting for just over 70% of exports of goods by value, and just over 40% of goods imported to Wales. The poor recent economic performance of the Euro area has affected the volumes of Welsh exports. However it is now expected that the Euro area economy will see increased growth next year, which will be a relief to the main Welsh exporters. Imports from Asia and Oceania far exceed exports from Wales to these areas, whilst trade with North America accounted for around 12% of total Welsh exports of goods by value, and around 16% of imports into Wales.