

~~AS041~~
27 JUL 2004

CARDIFF
.....
BUSINESS
.....
SCHOOL



Welsh Economic Review

Volume 16.1 Summer 2004

© Welsh Economy Research Unit 2004
ISSN 0965-2450

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 Welsh Assembly Government.

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.

Articles will be refereed within WERU. The Copyright for articles published in the *Welsh Economic Review* will be retained by WERU.

Dr Annette Roberts,
Editor, *Welsh Economic Review*,
Welsh Economy Research Unit,
Cardiff Business School,
Aberconway Building,
Colum Drive,
Cardiff, CF10 3EU.

Tel 029 2087 4173
Fax 020 2087 4419

e-mail robertsa1@cardiff.ac.uk

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 index has recently been updated in terms of base year from 1995 to 2000.

Figure 6 shows recent trends in the Welsh and UK indices of production. The index for Wales showed a sharp increase in the final quarter of last year (a 5.1% increase on 2003Q4 compared to Q3). This increase largely reflected a quarter on quarter 39% increase in the output of the electricity, gas and water sector. However, there is an encouraging 1.8% increase in manufacturing output in the final quarter of 2003. In comparison with the same quarter in 2002, the index of production in Wales was 1.5% lower, and the index of manufacturing output 4.3% lower. The latest figures show that the output of all production industries (excluding construction) at the end of last year was around 9% below levels in 2000 (the new index base year), with manufacturing output almost 13% below levels in 2000. Figure 6 also shows that the index of Welsh production still trends below the UK index.

Figure 7 shows the trends in the indices of UK and Welsh manufacturing. Excepting the small increase in the final quarter of last year, Figure 7 evidences a widening of the gap between the UK and Welsh manufacturing indices. The performance of Welsh

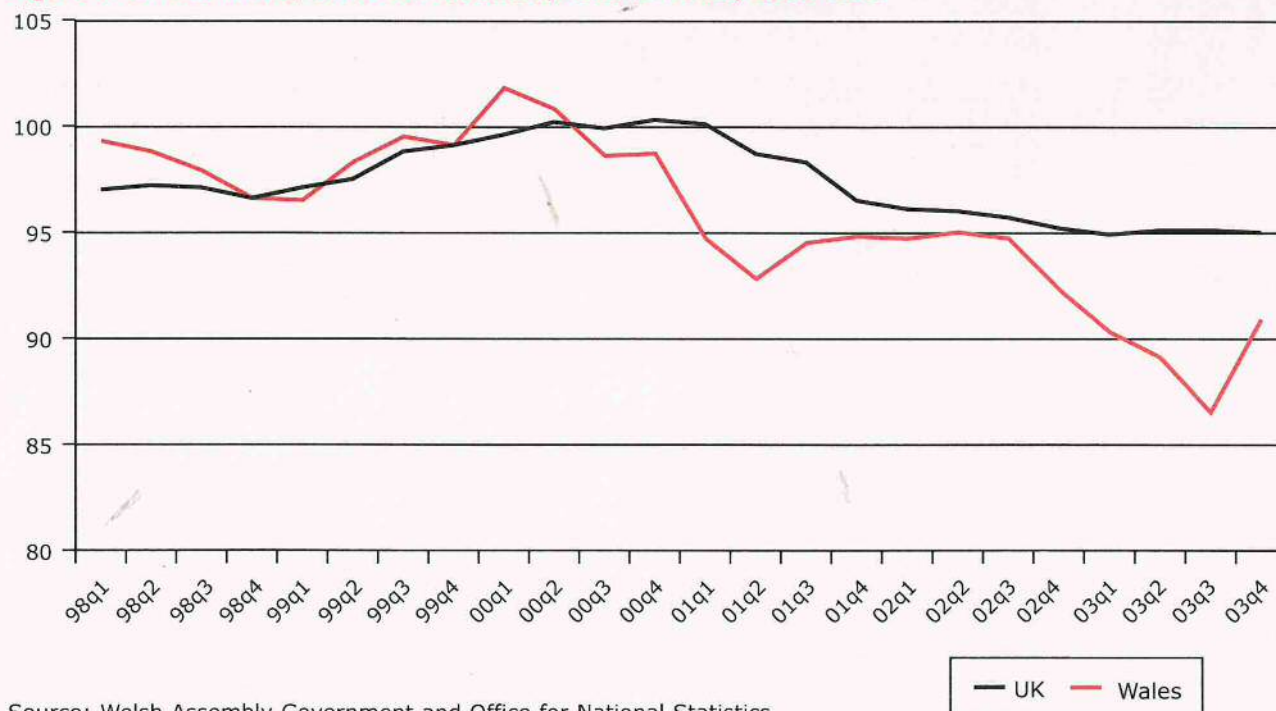
manufacturing varied considerably by sector during 2003. In the year to 2003Q4 losses in output were recorded in textiles (-3.1%, and with output in 2003Q4 around 38% below levels in 2000), chemicals (-7.3%), basic metals (-5.6%), electrical and optical (-19.7%), transport equipment (-13.0%), and engineering (-12.5%). In the electrical and optical sector output in the final quarter of last year was nearly half what it had been in 2000. This sector has had a varied recent performance with output growth of 25% between 1998 and 2000, and then a fall of 43% between 2000 and 2003, with the retrenchment of operations amongst inward investors and reductions of output at firms such as LG, Panasonic, Aiwa and Sony. No other sector in Wales has seen this level of volatility of output over the same period.

The list of better performing sectors in 2003 is short. The food and drink sector saw output increase by just less than 1.0% in the year to 2003Q4. Strong growth was seen in non-metallic mineral products of 7.8% in the year to 2003Q4, partly as a result of improvements in demand for construction industry products. The index of construction

output in Wales grew by 16.2% over this same period. Other sectors experiencing growth were machinery (6.6%), and other manufacturing (8.2%).

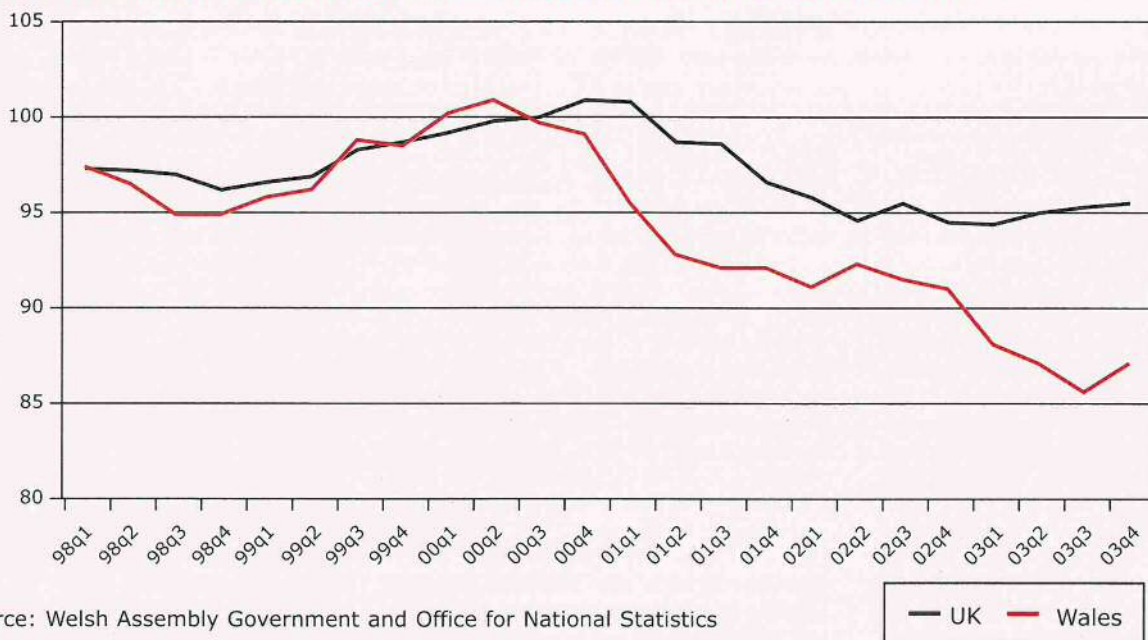
A key issue for Wales is the extent to which the increase in manufacturing output during 2003Q4 will be sustained into 2004. Early signs have been encouraging with surveys of business confidence published by Experian and CBI Wales pointing to a stronger trend in orders and output amongst Welsh respondents in the final quarter of last year. Moreover the CBI *Regional Trends Survey* published in February highlighted increased confidence in Wales, with new orders increasing, and a recovery in export orders for the first time in 18 months. Linked to this good news have been expansions during the first half of the year in firms such as Brecon Pharmaceuticals, and Logica CMG, together with improving prospects at Corus plants throughout Wales (see Diary section of this *Review*). In May, the CBI *Regional Trends Survey* continued to show strong optimism, with business confidence in 2003Q1 at its highest levels since 1995. It is unlikely that any recovery in Welsh output will result in a sustained increase

Figure 6: UK and Wales, Index of Production, Recent Trends, 2000=100.



Source: Welsh Assembly Government and Office for National Statistics

Figure 7: UK and Wales, Index of Manufacturing Output, Recent Trends, 2000=100.



Source: Welsh Assembly Government and Office for National Statistics

in manufacturing employment with the more labour intensive elements of regional manufacturing still very vulnerable to overseas competition.

International Trade

Table 9 shows that during 2003 Welsh exports of goods increased by almost £0.5bn. Exports to countries outside the EU increased by over £0.6bn, more than offsetting the fall in exports to the EU.

In 2003 imports of goods to Wales fell by £0.37bn compared with 2002. Imports from the EU increased slightly whilst imports from countries outside the EU fell by almost £0.5bn. In 2003 the Welsh trade in goods surplus more than doubled to £1.6bn, compared with 2002.

Table 9: Welsh Trade in Goods (£m).

	2002	2003	2003 Q1	2003 Q2	2003 Q3	2003 Q4
Imports outside EU	3475	3006	788	743	679	796
Imports from EU	2376	2477	615	607	614	640
Total Imports	5851	5483	1403	1350	1293	1436
Exports outside EU	1928	2556	567	669	673	647
Exports to EU	4691	4543	1227	1162	1044	1111
Total Exports	6619	7099	1794	1831	1717	1758

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