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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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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@cf.ac.uk

# WERU Forecasts

Regional forecasts of real GDP change provide one useful indication of future changes in prosperity. One driver of regional prospects is the strength of the national economy. National forecasting groups have tended to be relatively optimistic about medium term prospects for the UK economy, seeing a broader based increase in economic activity as the outlook for the manufacturing sector improves. This follows the stronger than expected performance of the UK economy during 1999, with real GDP increasing by 1.8% between 1998Q3 and 1999Q3. A more optimistic outlook for the UK manufacturing sector partly results from recent improvements in EU and world markets. During January the CBI, in its quarterly survey of manufacturing, reported that demand for manufactured goods was rising for the first time in almost two years. Despite the strong pound, exports optimism improved in the final quarters of last year, and UK manufacturing shows every sign of further growth. The UK manufacturing sectors expected to perform particularly well over the next few years are high-tech and R&D intensive sectors, such as electronics and pharmaceuticals. However, whilst manufacturing output improvements are expected, the outlook for sector employment is less good, with further job cuts likely as a result of required productivity improvements, and with some sectors, for example, clothing and textiles, especially vulnerable to cheaper imported products, and thus under mounting pressure to place production overseas.

Domestic economic prospects have been strengthened by resilient consumer demand, which has undoubtedly supported reported improvements in overall business optimism. One key question is the extent to which consumer demand might slow during this year, with further interest rate increases possible. While manufacturing prospects remain sensitive to such developments, national forecasts suggest that consumer demand will remain strong. Importantly, increases in output in the final quarter of last year were also heavily supported by service industries growth which is expected to continue this year. Fastest growth services sectors include transport and communications, and parts of financial and business services.

Fewer national groups provide regional economic forecasts. Of those available most expected modest growth in Wales

during 1999, but with some improvements in prospects for 2000-01, and output growth forecast in a range of 2% to 3.5% pa over the period. During 1999 there was every indication that overall employment levels would be maintained, with the most recent statistics showing that losses in manufacturing were countered by increases in the services and construction sectors. Doubts remain over the quality and GDP-generating potential of some service sector employment. During the year to November 1999, unemployment fell in every unitary authority area.

In summary, there is a strong expectation that the Welsh manufacturing sector will show modest GDP growth in the period to 2002 in line with wider UK expectations. Stronger growth sectors are expected to include chemicals, electronic and mechanical engineering, and transport equipment. In other sectors such as metals manufacture gains may be more modest, and with selected sectors such as textile and clothing expected to continue with severe problems. Wales remains poorly endowed with the fastest growing high technology and R&D intensive industries.

European funding, via the Objective 1 programme, offers some of the poorer

parts of Wales i.e. the West, North west and industrial South Wales valleys, the prospect of improvements in their economic fortunes. Whilst the debate about match funding continues, this funding will not provide a short cut to economic prosperity, but has the potential to allow these areas to play a more complete role in regional economic development processes. The impact of this funding on the economic performance of these areas will then not be evident for some time.

Table 1 sets out the latest WERU forecasts for Wales. Real output is expected to have increased by 0.4% during 1999. For 2000 the forecast is for growth of 2.0% followed by growth of 2.1% pa in 2001 and 2002. Rates of regional growth are forecast to lag behind those for the UK as a whole during this period. In this scenario it is unlikely that Wales will significantly close the prosperity gap between itself and the UK in the opening years of the new Millennium. At a sub-regional level, a real challenge for the Objective 1 programme will be to close the prosperity gap between the defined West Wales and the Valleys area, and the rest of Wales. This would require growth rates for the designated area to outstrip the Welsh average over a considerable period of time.

**Table 1: Forecast Change in Real GDP (%).**

	1999	2000	2001	2002
Wales	0.4	2.0	2.1	2.1