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Notes for Contributors

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North Wales is Thriving in a Service-Led Economy

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1. The International and National Background

The UK economy is recovering rapidly from the recession that was threatened by the Asian Crisis. The forecast made by the Liverpool Research Group in Macroeconomics (LRGM) last year was for the UK economy to grow by 1.5%, a rate that exceeded even the Treasury's estimate. At the time this was seen as extremely optimistic, in the depths of the panic following the collapse of the Russian economy. Now it appears that 1.8% or perhaps even more will be the outcome for the year. Next year UK economic growth seems set to be in the range of 2.5-3%, allowing for further rises in interest rates in an attempt to choke off excessive consumer enthusiasm. At present, however, the inflationary pressures are mild, with a serious inflationary threat unlikely to emerge. Interest rate increases are likely to be modest, essentially providing a series of 'warning shots across the bows'.

The international economic climate is relatively strong. The US economy continues to grow, buoyed by success in the new service industries spawned by information technology. US economic growth is however likely to slow as a result of interest rate rises. As in the UK, these increases will be moderate, since inflation is being held back by the threat that new technology presents to employment (this is ironic, considering these jobs are expanding so fast). In the Far East, the Japanese economy is weak, but is managing slow growth. Around Japan, the emerging market countries of Asia are recovering with amazing speed from the 1997-8 crisis. For example South Korea's GDP, which fell 8% in 1998, looks set to grow 9% this year. The continent of Europe is managing a sufficiently robust recovery to enable the European Central Bank to raise interest rates.

Growth is apparent overall with moderate, even subdued, inflation. With a great deal of excess capacity still around after the Asian Crisis there is no real threat of inflation from commodities or manufactured goods; the world is awash with both. World competition and new technology is also placing sharp constraints on workers' demands, as all are conscious of the new insecurity of jobs these create. Oil prices have been the one exception, shooting up from just over \$10 a barrel at the start of last year

to over \$20 today. However, this is merely a return to 1997 levels, or even 1991 levels, and it is doubtful that the price will stick, as fields such as those in the North Sea and Cardigan Bay, that are economic at these higher prices, come back on stream, whilst the technology of extraction is improving all the time.

There is one (so far small) cloud on the UK horizon, namely, the effects of New Labour's ill-considered labour market re-regulation measures, coming on top of the EU-inspired Working Time regulation. These include the Minimum Wage and the Fairness at Work legislation, which provides for union recognition ballots, a much higher £50,000 limit on unfair dismissal claims and equal rights for part-time workers. According to LRGM calculations, this package, if implemented literally and rigorously, could effectively slow the UK's economic revival by 1% a year for five years, and add one million to the unemployment register. Hopefully this could somehow be sidelined, and perhaps offset to some degree by the pressures being placed on young people and single parents to take work on pain of losing benefits. At this stage the net effect of all these is fairly uncertain, but could include emerging wage pressures at the bottom end of the pay scale and resulting low-wage and part-time redundancies.

2. The North Wales Economy Geography

North Wales comprises the six local authority districts of Denbighshire, Conwy, Gwynedd, and Isle of Anglesey to the west, plus Wrexham and Flintshire to the east. This east-west geographical division provides a basis for analysing the economy of North Wales because of

its different economic characteristics and experiences, with the western areas experiencing generally lower levels of economic prosperity.

Demography The population of the eastern districts is around 270,000, whilst that of the western districts is roughly 390,000, making a North Wales total of around 660,000 or one quarter of the total population of Wales of around 3 million.

Gross Domestic Product (GDP), a measure of economic activity, for North Wales in 1996 (at current prices) was £6.1 billion, or just under one quarter of total Welsh GDP of £26 billion.

The vast difference in wealth between the east and the west in North Wales can be illustrated by comparing GDP levels by area. Total GDP of Flintshire plus Wrexham was £3.11 billion in 1996, and was higher than that for the combined western districts, at £2.98 billion, despite the fact that the population of the east is almost one third lower than that of the west. Hence, at nearly £11,600 (1996 in current prices), the GDP per head of the population in the east is around £3,500 per person higher than the average £7,500 per head in the west (Tables 1 & 2).

Compared to the rest of the UK, this east-west contrast has led to the designation of the western districts as Objective 1 areas, defined by the European Community as those regions having a GDP per head less than 75% of the European average.

Employment

Almost 90% of employment in the west of North Wales is in services and agriculture, whereas the corresponding figure in the east, which is more heavily

Table 1: Gross Domestic Product (£million) by Local Area, (NUTS Level 3) at Factor Cost - current prices

	1993	1994	1995	1996
Anglesey	441	452	475	491
Gwynedd	837	865	945	904
Conwy/Denbigh	1,250	1,265	1,440	1,586
Flint/Wrexham	2,626	2,861	2,974	3,110

Source: ONS

Table 2: Gross Domestic Product (£ per head)

	1993	1994	1995	1996
Anglesey	6,365	6,617	7,029	7,329
Gwynedd	7,186	7,309	8,011	7,678
Conwy/Denbigh	6,225	6,261	7,100	7,831
Flint/Wrexham	9,600	10,646	11,052	11,593

Source: ONS

Table 3: Gross Domestic Product (£ per head, UK =100)

	1993	1994	1995	1996
Anglesey	69	68	69	68
Gwynedd	77	76	79	72
Conwy/Denbigh	67	64	70	73
Flint/Wrexham	106	108	108	108
Wales	83	83	84	83

Source: ONS

endowed with manufacturing jobs, is just over 70%, more in line with the UK average.

Another feature of this employment contrast is the proportion of the population classified as economically active, that is those people actively seeking work and consequently included in the working population definition. Economic activity rates are around 10% lower in the western areas, compared to the east, partly because of the relatively high population share of retired people. The potential for increasing the GDP per head of the west relative to the east is then limited inherently by the age distribution of the population.

Unemployment

There is also a marked east-west

contrast in unemployment, with Wrexham plus Flintshire's rate currently just over 3.5%, whilst all western rates are higher (Isle of Anglesey, 7.8%; Gwynedd 5.4%; Conwy, 5.2%; and Denbighshire, 4.3%). This differential in rates has been a feature of unemployment for many years (see Tables 4 and 5).

Prospects

The prospects for both eastern and western areas are good, although rather better for the east. Using econometric models developed by the Liverpool Research Group in Macroeconomics, forecasts for all main macroeconomic measures show improvements in both GDP and unemployment (see Tables 4 and 5).

3. The East

Flintshire and Wrexham are located a short distance from major UK markets in the North West and The Midlands, which means that companies can access the national motorway network with comparative ease. Transport costs may not account for a high proportion of a firm's total variable cost profile, but they can make a vital difference between making a viable profit and an operational loss. This comparative advantage is enhanced further by the nearness of suitable labour sources in the Chester and Wirral areas, from where commuting distances are convenient.

Consequently, large companies like BAE Systems on Deeside can be confident that their supply-side costs are fully competitive with those of other sub-regions, leaving them free to concentrate their business energies on meeting the demand for their products. Evidence of the positive demonstration effect of this business-friendly environment is not hard to find, including inward investment of sizeable proportions by Japanese manufacturing companies like Toyota on Deeside and Brother at Wrexham.

The economic consequence of these favourable fundamentals is shown in the Forecast Summary Table. Unemployment is forecast to continue its downward trend, with employment increasing in both manufacturing and service sectors. Manufacturing GDP is forecast to increase rather faster than service sector GDP, reversing the trend of the previous five years. In addition, the working population is forecast to increase further. There is no apparent impediment to further economic growth and even fuller employment, the only possible brake being planning restrictions and land availability.

Table 4: Forecast Summary Table, North Wales - The East

	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP (% p.a.)	2.3	7.5	2.6	1.4	2.0	1.6	2.0	2.1	1.9
Manufacturing	5.0	15.7	2.6	0.2	1.7	0.9	1.8	1.9	3.0
Non-Manufacturing	0.8	2.7	2.7	2.2	2.2	2.1	2.2	2.2	1.2
Employment (000s)	135.7	139.1	142.1	144.6	145.7	148.2	151.2	154.6	158.1
Manufacturing	38.6	40.5	41.8	41.2	41.2	41.1	41.7	42.0	42.8
Non-Manufacturing	97.1	98.6	100.6	103.6	104.6	106.1	109.5	112.5	115.3
Unemployment (000s)	16.4	14.9	13.2	12.8	9.3	8.6	7.2	6.7	6.2
Working Pop (000s)	152.1	154.0	155.3	157.4	155.9	155.9	158.4	161.2	164.4
Unemp. Rate (%)	10.8	9.7	8.5	8.1	5.5	5.5	4.5	4.1	3.8

Source: Liverpool Research Group in Macroeconomics

Table 5: Forecast Summary Table, North Wales – The West

	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP (%p.a.)	1.9	5.9	2.2	1.3	3.3	1.4	1.9	1.9	1.3
Manufacturing	2.4	37.3	2.0	0.4	1.7	1.0	2.4	2.6	4.6
Non-Manufacturing	1.8	2.8	2.2	1.4	3.5	1.5	1.8	1.8	0.9
Employment (000s)	72.4	74.3	75.0	75.3	77.0	78.8	79.2	80.6	81.2
Manufacturing	7.5	8.7	8.9	8.7	8.7	8.9	9.1	9.4	9.9
Non-Manufacturing	64.9	65.6	66.1	66.6	68.3	69.9	70.1	71.2	71.3
Unemployment (000s)	12.1	11.2	10.6	10.6	8.4	8.2	7.1	5.5	5.0
Working Population (000s)	84.5	85.5	85.6	85.9	85.4	87.0	86.3	86.1	86.1
Unemp. Rate (%)	14.3	13.1	12.4	12.4	9.8	9.5	8.2	6.4	5.8

Source: Liverpool Research Group in Macroeconomics

4. The West

This group of districts has been designated an Objective 1 area by the European Community, indicating a level of deprivation thought to require injection of £1.3 billion of public money over the six years 2000-2006. This amount of funding per annum amounts to no more than 7.5% of annual GDP, but nonetheless could make a valuable contribution to making western areas more prosperous, providing it is spent intelligently. One of the main lessons from neighbouring Merseyside, recipient of similar funding levels from 1993 to 1999, is how not to spend such money. Mistakes were made by allocating over 40% of the money on training programmes, only to see the beneficiaries migrate out of the area when up-skilled because of limited job opportunities. Merseyside's loss was, in part, North East Wales's gain in this respect. Instead, Objective 1 money should be spent on projects that enhance the profitability of businesses by reducing their operational cost base. In particular, the improvement of road and rail links to more remote areas to the west should be a top priority. The extension of the A55 Expressway across Anglesey, the linking of the new bridge across the Dee at Queensferry with the A55, the improvement of port-related facilities at Holyhead and at Mostyn, plus the provision of available sites for inward investment such as at St Asaph are examples of specific projects which would encourage business development and improve socio-economic conditions for the deprived areas to the west.

The experience of the Port of Liverpool and of other UK ports shows how important port-related industries can be to a local economy. A port generates many intricate linkages with other parts of an economy and can fill the role of a central hub, creating many thousands of port-related jobs.

The emphasis on enhancing business development should be biased towards an east-west orientation rather than north-south because it is on the east-west axis that most potential exists for increasing the volume of trade flows. Road links between north and south need to be improved, but principally for the benefit of people carriage rather than for trade.

Table 5 shows improvements in most macroeconomic measures in the western districts. Employment is forecast to go up in both manufacturing and services, and unemployment is forecast to fall, although it will still be two percentage points higher than in the eastern districts. Manufacturing GDP is forecast to increase by 4.6% in 2001, whilst the service sector falls back. The working population is forecast to stabilise at around 86,000.

In summary, some improvement is expected in the west, but not enough to redress the imbalance with the area's neighbours to the east. There are, however, grounds for optimism that the gap in employment, unemployment, and GDP per head can be closed, as some companies are demonstrating already that business success can occur in more remote locations. Halo Foods at Tywyn and Kruger Tissues at Penygroes in Gwynedd are just two examples. Innovative exploitation of abandoned mine workings can also be fully economic, as shown by the use of slate from quarries near Dolgellau and elsewhere in the west for use in garden products. Further road improvements together with intelligent exploitation of opportunities provided by e-commerce would help to significantly reduce the disadvantages of a remote location.

The depressed state of the farming industry is a particular concern to the western districts, but diversification into alternative businesses in the tourist

trade such as holiday lets and home crafts can provide a viable living for some in the industry.

5. Business Prospects.

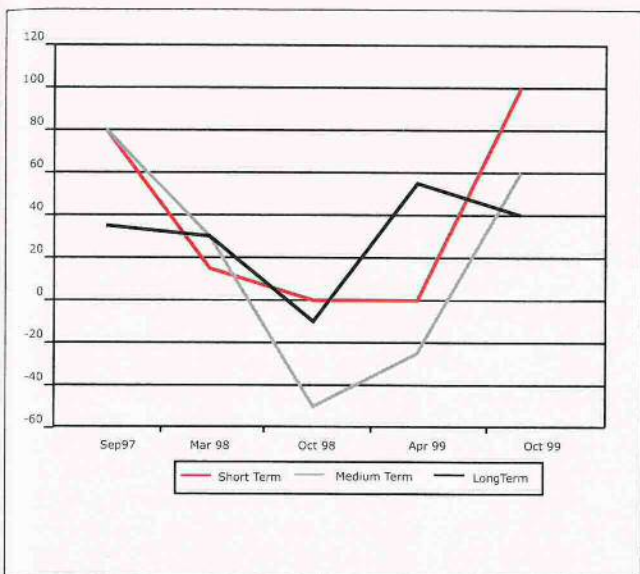
The Liverpool Research Group in Macroeconomics produces a biannual survey of business prospects for all North Wales, from a fixed panel of 40 respondents. Summary results for December 1999 are reproduced in the figures below. They show a strong overall performance, with all balances positive, bar one of zero for manufacturing employment in the long term. The high positive balances for capital investment are more credible because of their objectivity and can be thought of as corroborating the good results of the other three, more subjectively based charts. The future looks bright.

6. Conclusions

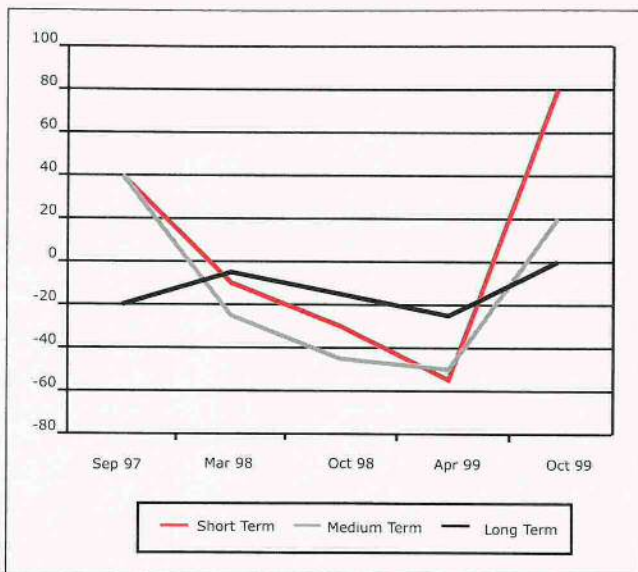
The west of North Wales is characterised by a sparsely distributed population, which is more elderly than in the east. Income per head in the west is much lower than in the east, where there is more manufacturing employment and which is located closer to UK markets, so that product distribution is more economic than from further west. This competitive edge is being eroded as more traffic takes advantage of the transport cost reduction opportunities provided by the A55 Expressway. As the Expressway becomes extended across Anglesey, the west will become more attractive for businesses which would otherwise have stayed to the east, whilst the port at Holyhead can be expected to become more competitive with Liverpool in respect of Irish Sea traffic. Diversification and intelligent exploitation of the west's natural resources gives hope for an optimistic future for all of North Wales.

Business Prespects in North Wales, Balances, % Optimistic minus % Pessimistic

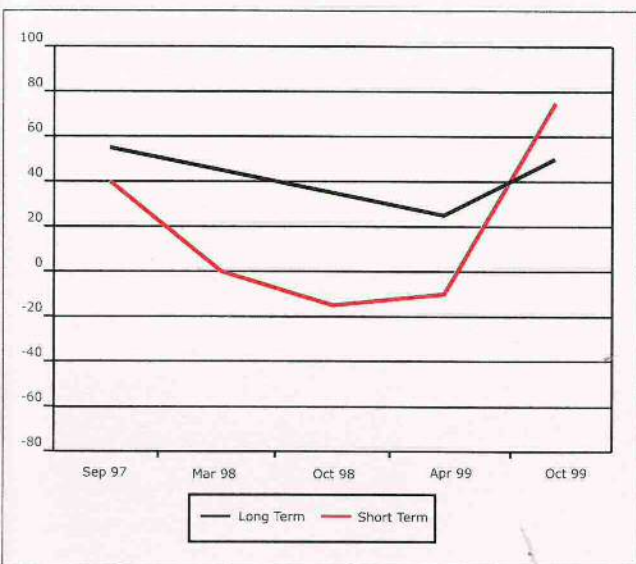
Business Buoyancy



Manufacturing Employment



Services Employment



Capital Investment Plans

