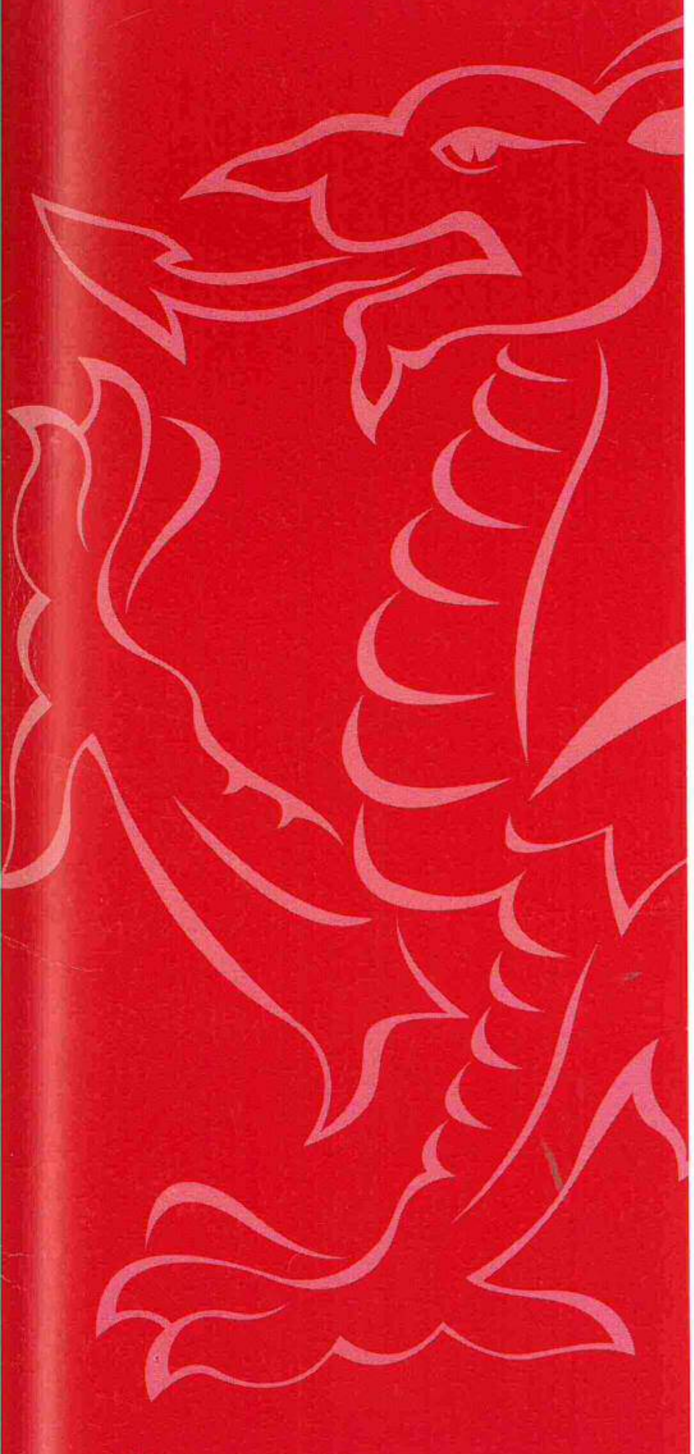

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The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes 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

Changes in industrial output over time can be tracked using indices of production. The indices are based on industry sales which have been adjusted for stocks and changes in price levels. The Index of Production for Wales has not been available since 1998Q1, because of revisions being undertaken to the series. These were discussed in issue 11.2 of the *Welsh Economic Review*. A revised and re-based Welsh index of production should be available during the Spring of this year. This issue provides a commentary for UK production, drawing some inferences for Wales.

The UK index of production tracks the outputs of manufacturing industries, extractive industries, and the utilities sector. However, the composite index is heavily weighted to the manufacturing sector, such that movements in the manufacturing index exert a strong influence on the overall index. Figure 4 shows the progression of the UK indices of all production and manufacturing between July 1998 and September 1999.

Last year was expected to have been difficult for UK manufacturing, with the beginning of the year seeing particularly gloomy predictions on job losses in the sector resulting from high sterling, and weaker domestic conditions. Figure 4 reveals some improvement in the index of manufacturing during last year. The manufacturing index increased by 1.0% between 1999Q2 and 1999Q3, and by September had reached a level which was up 1.7% on the January figure. The better than expected performance of manufacturing has influenced the overall index of production (including the extractive and utilities sectors) which increased by 1.2% between 1998Q3 and 1999Q3. Improvements in manufacturing at the UK level have also been reflected in the Welsh economy where several business surveys published during the last quarter of 1999 revealed improving confidence, growing export orders in the period to February 2000, and better business performance.

Improvements were not seen across all UK manufacturing sectors during last year. Table 8 shows the movements in indices for individual manufacturing sectors for the period January to September 1999.

Table 8 Change in Index of Manufacturing Sectors, Jan-Sept 1999 (%)

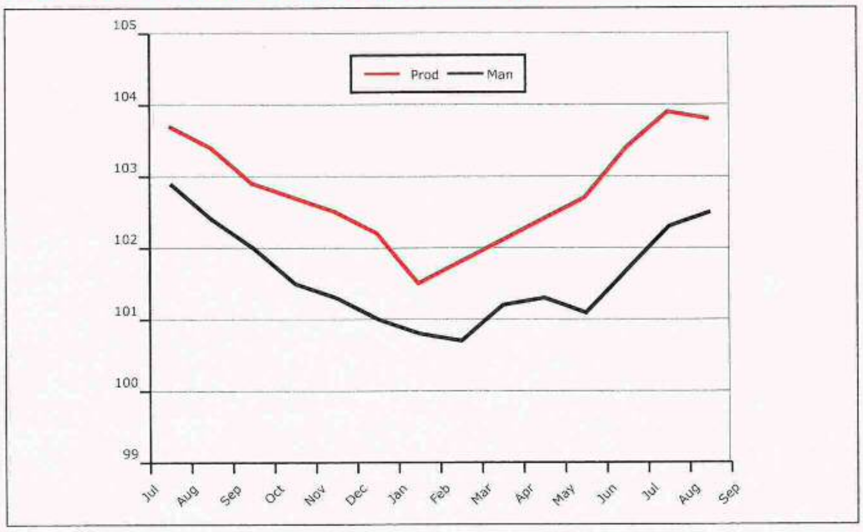
Sector	Change %
Coke and refined petrol	-12.1
Chemicals/man-made fibres	8.1
Basic metals/metal products	1.5
Engineering and allied industries	1.7
Food and drink	-0.8
Textiles, clothing etc.	-2.0
Other manufacturing	2.0
All manufacturing	1.7

Source: ONS, UK Index of Production, September 1999.

The strongest growth in output occurred in the chemicals and man-made fibres sector, where the index grew by 8.1% in the first three quarters. In other sectors gains were more modest - however, there is some evidence of sustained growth of output in both basic metals, and engineering. In both cases these are sectors where Wales derives a relatively high proportion of its total output.

The textile and clothing sector experienced severe problems during last year, with the UK index for this sector falling by 2.0% in the first three quarters. The textiles and clothing sector has been damaged by the high value of sterling, and resulting cheaper imports. A severe blow for the sector in Wales was the decision by Marks and Spencer to restructure its supply base, and seek cheaper foreign alternatives to domestic suppliers. This has resulted in the termination of supply contracts with the Baird group placing several plants in Wales at risk of closure. This follows employment losses at other textile producers in the region such as Dewhirsts and Laura Ashley. The comparative labour intensity of the textile sector, coupled with the continued competitiveness of foreign goods, and pressure on clothing retail margins, will continue to cause problems for the Welsh textile and clothing sector.

Figure 4 Index of UK Production and Manufacturing July 1998 to September 1999 (1995 = 100)



Source: ONS, UK Index of Production, September 1999.

Output in the UK utilities sector grew by 2.9% between January and September 1999, growing rather faster than manufacturing during the first three quarters of the year. In Wales, the water and electricity utilities sector is dominated by the Hyder and MANWEB (owned by Scottish Power) groups. Tighter restrictions by the water and electricity regulators have placed Hyder under severe pressure and up to 1,000 redundancies are expected by Spring of this year. Overall, while some output increases in Welsh utilities are expected during this year, they are likely to be accompanied by job losses across the electricity, gas and water supply sectors.

Prospects for industrial production growth in Wales will continue to be mediated by the performance of the UK, and European economies, together with the policy stances adopted by the UK government. Recent movements in the UK index, coupled with Welsh survey evidence suggests that this year should see some recovery in Welsh production output. However, output growth across sectors is unlikely to be even. The manufacturing sector is expected to be led by the electronics, engineering and motor vehicles components, with poorer output growth expected in the food and drink, textiles, utilities, and extractive and oil refining sectors.