

# 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 a 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 latest information on the Welsh index of production relates to the third quarter of last year. Figure 2 provides a summary of trends in the indices of production for Wales and the UK. In comparison to the UK, the Welsh index showed considerable variation during 2003 and the first half of 2004. Figure 2 also shows the sharp divergence of the UK and Welsh indices of production during 2004Q2 and Q3. The overall Welsh index of production increased by 7.3% in the year to 2004Q3, whilst the UK index fell by 0.4%. Much of this is attributable to the volatility of electricity production in the regional economy. In the first three quarters of 2004 the index of output in electricity, gas and water increased by 25.1%.

Figure 3 focuses on the Welsh and UK indices of manufacturing output. The UK index of manufacturing increased by 0.5% in the year to 2004Q3, whilst the Welsh index increased by 3.0% over the same period. However, of more interest were movements during the third quarter of last year, with the Welsh index of manufacturing increasing by 0.6% whilst the UK index fell by 1.0%. A key question is whether or not the increasing trend in manufacturing output will have been maintained into

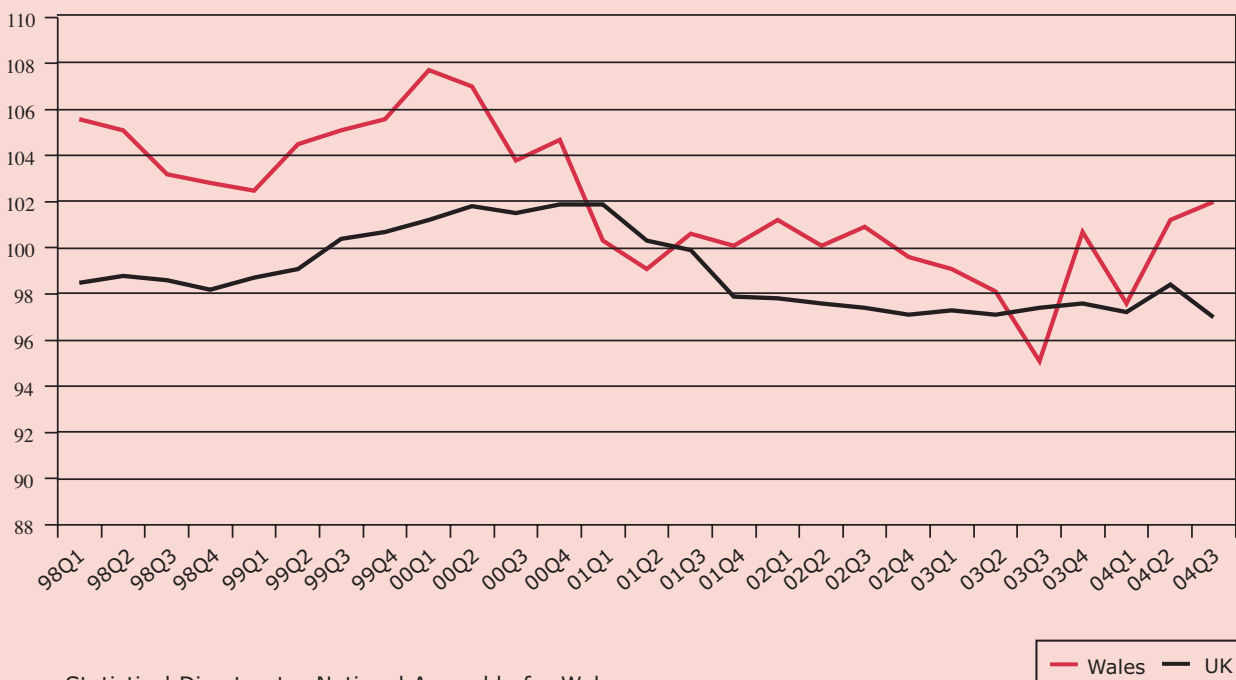
the first half of 2005. Overall signs are good. In January 2005, the Royal Bank of Scotland *Purchasing Managers Index* reported that Welsh business activity had grown for the 21st successive month in December 2004, and that the regional manufacturing sector had expanded output at a faster rate than the services sector. Also in January, the Lloyds TSB Corporate *Business in Britain Survey* revealed that 55% of firms in Wales had increased sales during the second half of 2004. Set against these more optimistic findings, were concerns in the latest CBI quarterly *Wales Industrial Trends Survey* that Welsh firms were facing rising costs and falling export orders (but see also export figures below).

Prospects in Welsh manufacturing have varied considerably by sector in the year to 2004Q3. Sectors experiencing the largest increases in output over this period included food and drink (by 10.1%), chemicals (7.4%), and basic and fabricated metals (by 15.1%). Set against this have been reductions in output in the year to 2004Q3 in textiles (-11.4%), pulp and paper (-16.8%), and other manufacturing (-7.6%). Capacity losses in the electronic engineering sector, and the automotives

sector will be of some concern this year. In the latter case the first quarter of this year has seen UK motor manufacturers reducing production to cut stock levels. This has potential ramifications for the Welsh automotive components sector. More generally, Welsh manufacturing will come under further pressure this year as a result of higher fuel prices, and as easing consumer spending hits domestic sales.

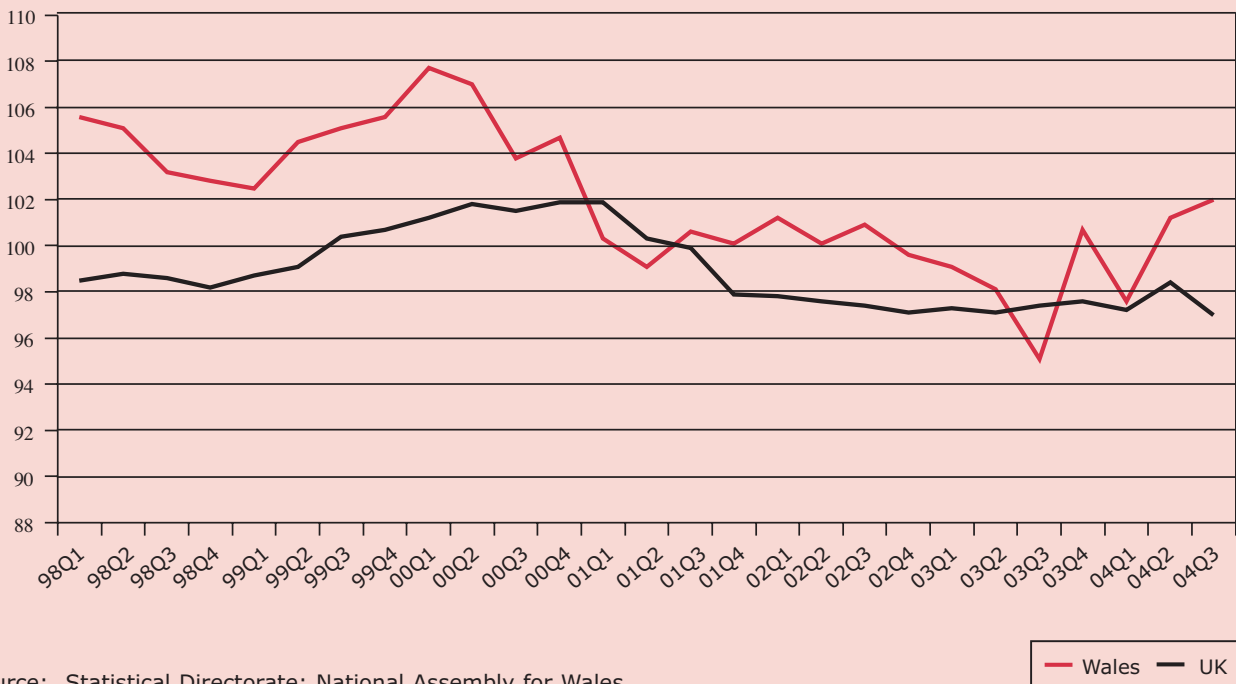
New information from HM Customs and Excise (HMCE) has revealed that Welsh exports in 2004 had increased substantially on 2003 levels (Table 10). The value of Welsh exports in 2004 was an estimated £8.2bn. This was around £1.0bn higher than 2003 levels; representing a 22.4% growth in exports to non-EU states, with a smaller increase (10.3%) to EU states i.e. an overall increase of around 14%. In 2004Q4 total Welsh exports were £2.23bn. This was an increase of 9.7% over the 2003Q3 figure. During 2004Q4 an estimated 63.6% of Welsh exports went to the EU, with a further 18.1% going to North America. Particularly encouraging was the fact that Welsh export growth during 2004 surpassed that in all other UK regions.

Figure 2: Welsh and UK Indices of Production - Recent Trends



Source: Statistical Directorate: National Assembly for Wales

Figure 3: Wales and UK Indices of Manufacturing - Recent Trends



Source: Statistical Directorate: National Assembly for Wales

Table 10 Welsh Export Highlights 2003-04

	2003	2004
Welsh exports total	£7,196m	£8,217m
<i>Of which to:</i>		
EU	68.0%	65.6%
North America	13.8%	17.2%
Asia and Oceania	10.6%	9.8%
Other	7.6%	7.4%

Source: HMCE

Note: 2004 figures still provisional.