

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.

Figure 4 shows the index of production for Wales and the UK. The index for Wales for the latest four quarters fell by 2.2% compared with the previous four quarters. However, the recent downward trend in the Welsh index is very severe compared to the overall UK trend. In 2005Q2 the Welsh index was down 7.9% compared to the same quarter in the previous year whereas the UK index fell by just 1.8% over same period. Figure 4 also reveals that the index of production for Wales in 2005Q2 was around 8% below 2002 levels (the base year). The recent trend contrasts with a recovery in the index in the first half of 2004. The overall index of production comprises components relating to manufacturing, mining and quarrying, energy and water supply. Consequently there is value in examining individual components of the index, particularly the large manufacturing component.

The key contributor to the overall downward trend has been the performance of the manufacturing sector in the first half of 2005. In mining and quarrying (a small weight in the index reflecting its small share of Welsh output) output has actually increased markedly, up 13.8% in 2005Q2 compared to the same quarter in the

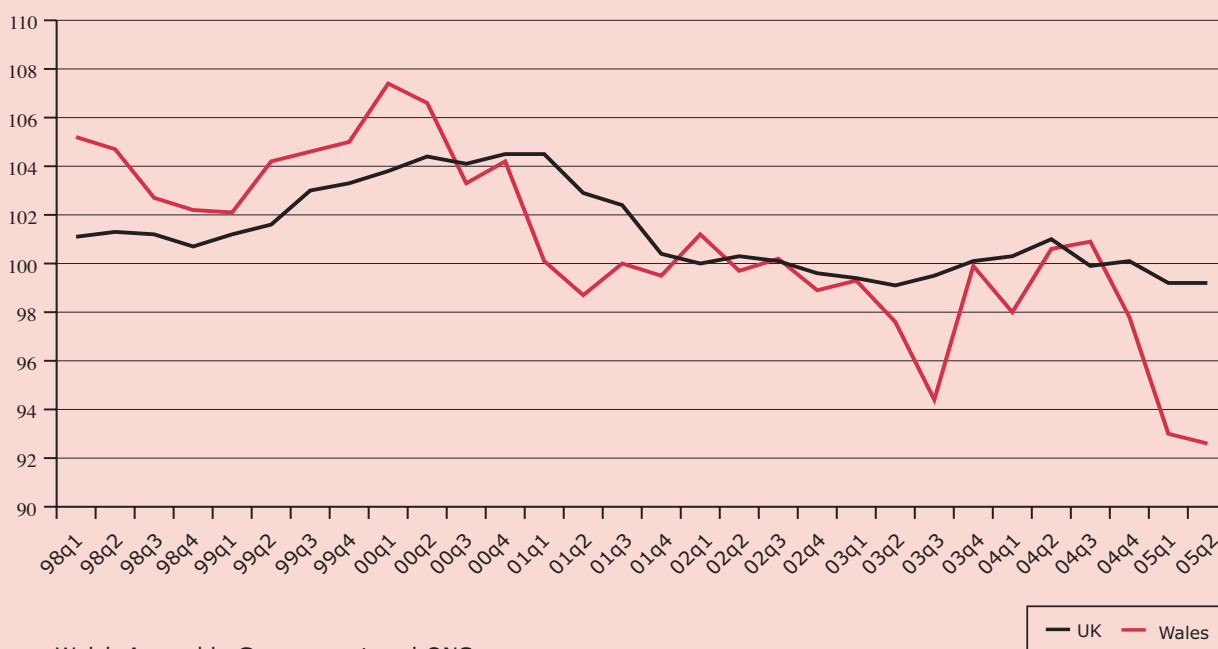
previous year. In the energy and water supply sector, output in 2005Q2 was 13.8% lower than in 2004Q2. However, the manufacturing index (the largest component of the aggregated index) was 6.9% lower in 2005Q2 compared to 2004Q2. This latter figure is, of course, an average for all of the manufacturing sector with considerable variation by individual manufacturing sector.

The largest losses in manufacturing output in the year to 2005Q2 were in textiles (-10.7%, and with textiles production in Wales in 2005Q2 25% below levels in 2002); pulp and paper (-16.0%), coke and refined petroleum (-23.4%), and other manufacturing (-11.1%). More encouraging in the first half of this year has been the maintenance of output levels in the basic metals sector, and with losses of output in key sectors such as electrical engineering, transport equipment, and general engineering pegged back to a range of just 6-8%. However, of the manufacturing sectors listed in the Welsh index only food products had levels of outputs in 2005Q2 which were above those in 2002.

Figure 5 separately shows the manufacturing indices for Wales and the UK. Compared to Figure 4 this reveals a

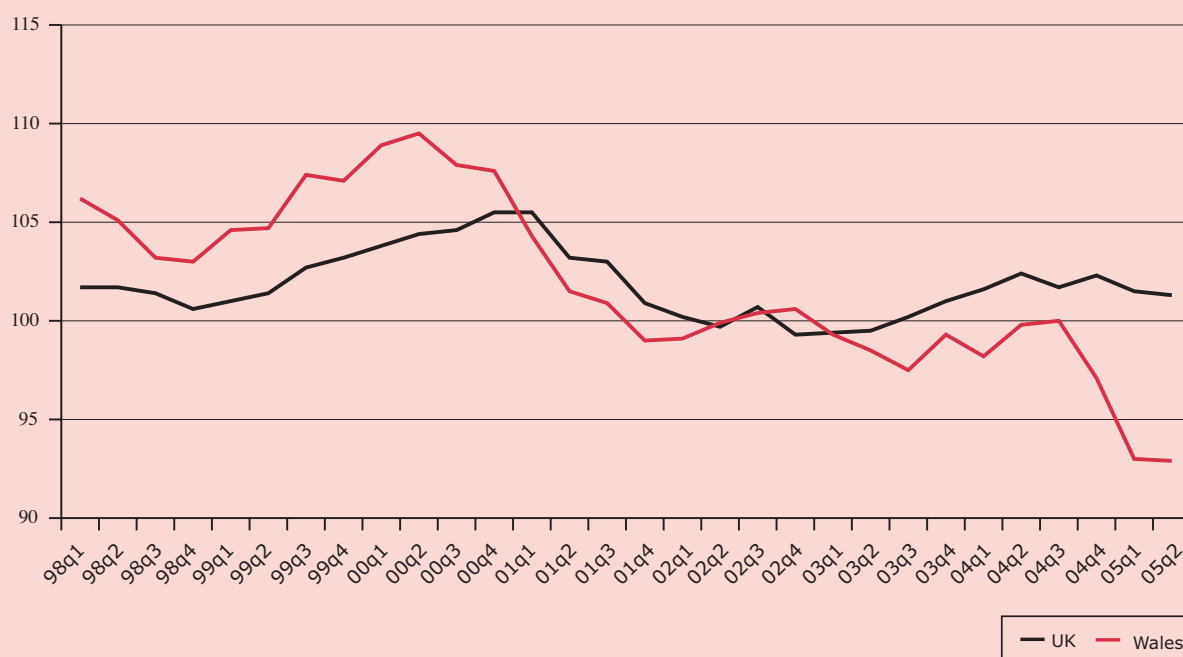
sharper divergence between the Welsh and UK indices. A critical issue is the extent to which the Welsh manufacturing index will have recovered during the remainder of this year, and into 2006. An analysis of recent headlines is not encouraging. The *CBI Regional Trends* survey reporting in August highlighted that business confidence had fallen in every UK region for the first time in two years. In particular the survey revealed a slowdown in new orders which was reinforced by a slowdown in domestic retail sales. More locally, July saw around 200 jobs lost in Llangadog in West Wales at the DFB Creamery. In August, the Bridgend economy received another blow as over 200 jobs were lost as a result of the closure of a Christie-Tyler furniture plant. The area was already reeling from the downsizing of Sony operations in the town. In the transport sector TRW (braking systems at Pontypool) confirmed 156 job losses in moves to improve plant competitiveness. There were three other notable closures in the second half of this year. In Swansea, September saw the announcement of the closure of the Walkers Crisps plant in Fforestfach with the lost of 250 jobs, and Rizla (cigarette papers) in Treforest is expected to close this plant during 2006 with the loss of

Figure 4: Index of Production, Wales and UK Trends to 2005Q2, (2002=100).



Source: Welsh Assembly Government and ONS.

Figure 5: Index of Manufacturing, Wales and UK Trends to 2005Q2, (2002=100).



Source: Welsh Assembly Government and ONS.

134 jobs. In addition Nippon Electric Glass UK announced the closure of its Cardiff manufacturing site, with the loss of 400 jobs. There have been some new investments in the second half of this year (see Diary section) but the employment created in new developments is unlikely to compensate for the job losses that continue to occur in Welsh manufacturing.

In conclusion it is unlikely that the second half of 2005 will see any marked improvements in the level of the Welsh index of manufacturing. Marginal improvements in the Welsh index of production may be caused by increases in the output of the energy and water sector with this series being subject to wide variation depending on power station outputs.

A strange paradox has been that whilst manufacturing output has tumbled during the first half, Welsh exports have shown an improvement. New data from HM Customs and Excise reveals that the value of exports from Wales for the period 2004Q3 to 2005Q2 increased by 14% (i.e. to £8.6bn). This is compared to an increase of just 4.6% over the same period for the UK as a whole. Moreover, total exports for Wales rose by 4.6% in 2005Q2 compared to the same quarter in the previous year. The increase in Welsh exports for the four quarters to 2005Q2 combined a 27% increase in exports to non-EU, and an 8% increase to the EU. Exports to the USA reached just under £1.4bn in the four quarters to 2005Q2, and also saw the largest absolute growth over the same period (up 39%). In terms of exported products metals, engineering,

and chemicals together account for around 40% of export value (see Table 8).

The divergence between the index of manufacturing and export performance is difficult to explain. In part the strong exports performance can link to changes in overseas sales of just a few large plants in Wales. Moreover, the index of manufacturing is reflecting limited growth in domestic sales such that some firms may be seeing stronger trends on overseas trade compared to sales at home. In addition success in terms of export values in 2005Q2 is expected to be reflected in higher Welsh manufacturing output levels in earlier quarters in the previous year.

Table 8: Welsh exports, Key facts.

Total export value 2004	£8.3bn
Export growth 4 quarters to 2005Q2 compared to prev. 4 quarters	14%
Export value 2005Q2	£2.1bn
Exports to USA, 4 quarters ending 2005Q2 (change over previous 4 quarters)	£1.4bn (38.8%)
Exports to EU, 4 quarters ending 2005Q2 (change over previous 4 quarters)	£5.5bn (7.9%)
Key export sectors	
Metals exports, 4 quarters to 2005Q2 (change over 4 previous quarters)	£1.6bn (43.9%)
Engineering exports, 4 quarters to 2005Q2 (change over 4 previous quarters)	£1.4bn (20.9%)
Chemicals exports, 4 quarters to 2005Q2 (change over 4 previous quarters)	£1.2bn (-8.8%)

Source: HMCE.