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Industrial Activity

The Index of Production and Construction provides a general measure of changes in output, using industry data on turnover adjusted for stock changes and price effects. As a result of revisions to index methods, the Welsh Index of Production and Construction had not been published since the third quarter of 1998. A new index has now been published. Henceforth, this is a collaborative exercise between the National Assembly and the Office for National Statistics. However, the majority of the information continues to be derived from the ONS Monthly Production Enquiry.

Recent movements in the overall index of production and construction for Wales are shown in Figure 7. Production industries comprise manufacturing, mining and quarrying and electricity, gas and water sectors. The overall Index of Production and Construction fell steadily between 1997Q4 and 1998Q3. After this the trend in the index is upwards, although with small reverses in 1999Q1 and Q4. In the year to 2000Q2, the Welsh index increased by 4.1% (2000Q2 compared to 1999Q2). There was a strong expectation that 1999 would have been a poor one for Welsh production industries, with

business surveys published during the first quarter of 1999 reporting falling confidence. However, the figures from the Index of Production and Construction evidence increasing output during the year, and confirm the better than expected business optimism in Wales revealed in the CBI Industrial Trends Survey during the latter part of 1999. A Cardiff Chamber of Commerce survey of 450 firms in South East Wales also reported business confidence and business performances improving in the third quarter of 1999, with growth in domestic sales and exports.

The better than expected showing on the overall Welsh index was not reflected across all the constituent sectors. For example, the mining and quarrying index fell 10.6% in the year to 2000Q2, while the construction sector index fell by 4% over the same period. However, manufacturing output increased throughout the year. The manufacturing index increased by 1.6% in the quarter to 2000Q2, and was up 5.5% compared to the same quarter in the previous year.

Figure 8 compares the Welsh **Manufacturing** index (manufacturing accounts for just over 75% of the total Index of Production and Construction) to the UK Index since 1997. During 1997 and 1998 the Welsh index remained around 1995 base levels (1995=100). However, by 2000Q2, Welsh manufacturing output was 7% above 1995 levels, compared with around 3% above for the UK.

Table 13 shows recent movements in the index for selected individual manufacturing sectors. The index for textiles fell steadily during 1999, with some limited recovery in the first quarter of this year. As seen in previous issues of the *Welsh Economic Review*, the sector has been particularly exposed to high Sterling, and resulting cheap imports. The sector was also hit during 1999 by the decision of Marks and Spencer to end its supply contract with the Baird group. Closures at Baird follow job losses at other local Marks and Spencer suppliers including Dewhirst, and occur in a context of wider sector problems that have encompassed firms such as Laura Ashley.

Other manufacturing sectors have done rather better. The transport equipment sector index increased 5.7% in the year to 2000Q2. This was despite poor conditions in some parts of the automotive sector which led to job

Figure 7: Welsh Index of Production and Construction, 1997Q1-2000Q2, 1995=100



Source: Office for National Statistics

Figure 8: The Index of Manufacturing Output, Wales and the UK, 1997Q1-2000Q2, 1995=100.



Source: Office for National Statistics

losses at firms such as Krupp Camford Pressings and Calsonic (Llanelli), Lucas SEI (Ystragynlais) and Fenner (Maerdy). However, there was good news in the sector with more than 1,400 jobs secured at Ford (Bridgend), as the parent company announced that the plant was to be the sole supplier of the Zetec engine after 2003.

The electronics and optical equipment sector appears to have performed particularly well during 1999. The index for this sector grew by 13.7% in the year to 2000Q2. The volume of production in Welsh electronics increased by 19% between 1995 and 1999. It is unlikely the index for electronics will continue the current upward trend. The current high value of Sterling is known to be damaging prospects for consumer electronics industries in Wales. Longer term movements in the electronics index will be particularly influenced by the nature of plant restructuring and rationalisation undertaken in Asian-owned multinationals to take advantage of the growing European marketplace. Linked to this is the growing location competitiveness of areas on the fringe of the European Union. These factors have been identified as important in recent employment cutbacks announced at Panasonic, Sony and Hitachi (see Diary section of this Review).

Production in basic metals only declined slightly during 1999 despite the fact that

Wales' two largest steel plants have been under mounting pressure as a result of high Sterling (damaging export prospects), and falling demand from domestic car makers.

Strong growth in the manufacturing index as a whole is unlikely to be maintained during 2000-01. Regional businesses surveyed by the CBI earlier in the year reported stable order levels, but with overall confidence, export orders and employment all falling.

Regional Trade in Goods

Earlier this year the HM Customs and Excise launched a new series of statistics on overseas imports and exports by UK region. Data available from this source includes the value of imports and exports, and the number of companies exporting and importing. The data, available quarterly since 1999Q1, is collected through declarations received by HM Customs and Excise from importers and exporters, and is allocated to a region based on the company's VAT registration. Some adjustments have been made to reflect the operations of branch premises, which may not be located in the VAT registration region, although this has not been possible for all data. In addition, certain goods, such as North Sea crude oil, have not been allocated to any region. This data refers only to international trade, and excludes information on trade in services, such as banking and finance.

Whilst this data does not fully capture a region's international trade, the information provides a useful guide to the import and export intensities of regions over time.

According to HM Customs estimates, Wales exported approximately £6bn worth of goods overseas during 1999 (around 4.3% of the UK total), and imported just over £5bn (approximately 2.7% of the UK total), showing an overall international trade in goods surplus for the year. Around 72% of the value of Welsh exports is to other EU countries, with just over 12% to the Americas, 7% to Asia and Oceania, with the remaining exports to the Middle East, Africa and to other (non EU) Europe.

The DTI's *Regional Competitiveness Indicators* report (August 2000) related regional export data to the number of employee jobs per region, to derive a regional size adjusted indicator of export intensiveness. According to these DTI estimates, Wales exports £5,800 worth of goods per employee job, just above the UK average of £5,725, with Scotland generating the highest exports per employee job, at over £7,600.

For more information on the regional trade data visit www.uktradeinfo.com/

Table 13 Index of Manufacturing Production in Wales by Selected Sector 1995-2000 Q2

	All Manufacturing	Food/ Drink	Textiles/ Clothing	Chemicals	Basic/ fabricated metals	Electric/ optical	Transport equipment	Machines
1995	100.0	100	100	100	100	100	100	100
1996	100.6	106	104	96	100	103	103	102
1997	100.7	101	94	97	103	102	117	106
1998	100.9	104	93	101	97	107	117	104
1999Q1	101.8	109	91	104	97	112	124	98
1999Q2	101.4	105	89	104	94	116	123	94
1999Q3	103.7	107	86	105	95	122	127	98
1999Q4	103.9	106	85	102	95	127	124	97
2000Q1	105.3	109	87	102	99	126	131	98
2000Q2	107.0	110	86	103	102	132	130	98

Source: Office for National Statistics