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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

The Index of Production (and Construction) for Wales is produced by the Welsh Assembly Government and the Office for National Statistics (ONS). The index provides one measure of movements in Welsh industrial output, and continues to be 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 recent trends in the Welsh and UK indices of production. The figure highlights the relatively poor performance of the Welsh index during the second half of last year. The overall index of production in Wales fell by 2.4% during 2002Q4 (UK 0.6%), and was down 2.5% on the 2001Q4 figure. The UK index of production decreased by 1.2% in the year to 2002Q4. The index of manufacturing for Wales fell 1.3% during 2002Q4 (UK 0.9%). In the final quarter there was also a 14.4% fall in output in electricity gas and water supply. This element of the index is particularly volatile with a high

proportion of the output in the sector in just a few Welsh facilities (particularly power stations). Reductions in output at any one of these facilities can have large effects on the index for electricity, gas and water supply.

Output in Welsh manufacturing continues to be very vulnerable. Figure 5 reveals the poor performance of the Welsh index of manufacturing during 2001-02. Manufacturing output increased slightly during 2002Q2, after falling steeply after 2000Q4. This small upturn appears to have been a temporary aberration on the longer term

trend. Surveys of business confidence in Wales during the second half of last year showed that Welsh manufacturers expected new orders to fall, and with firms suffering from weak demand in export markets, and the increasing cost competitiveness of overseas producers.

Unfortunately, these poor expectations have been born out in the index of manufacturing in the second half of 2002. The manufacturing index fell by 1.3% in 2002Q3, and then a further 1.3% in the 2002Q4. This downturn is also reflected in recent Welsh trade statistics. Table 12 shows that Welsh

Figure 4: Welsh and UK Index of Production (1995=100)

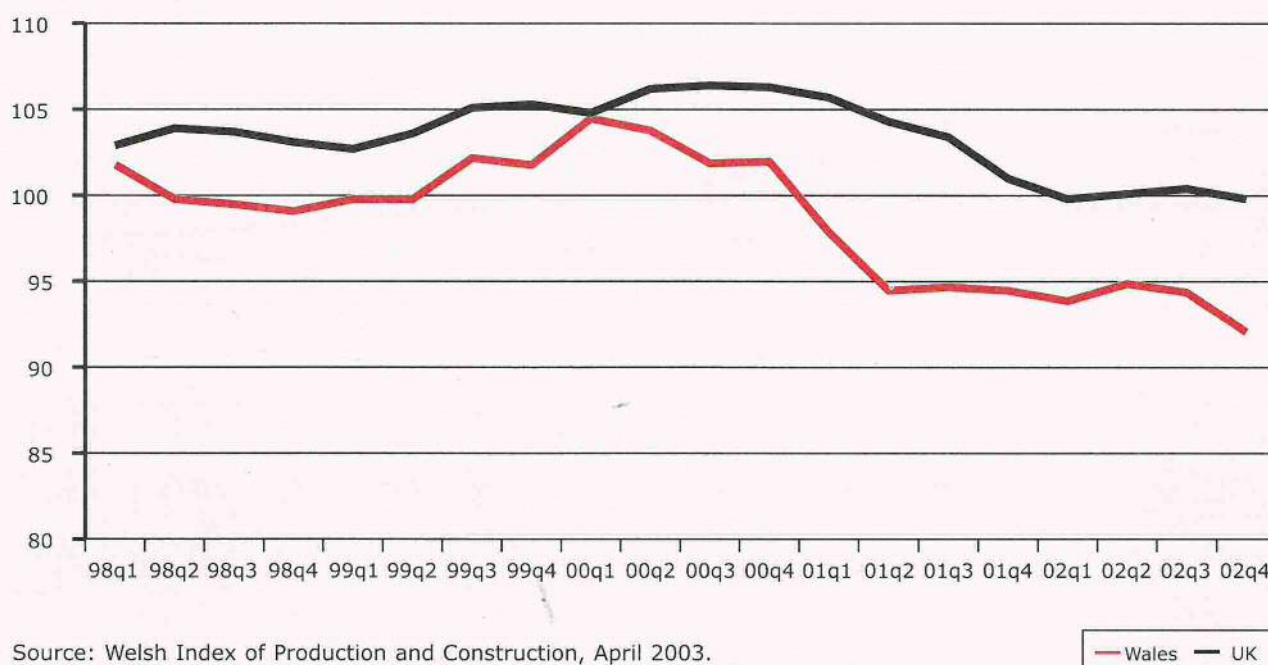
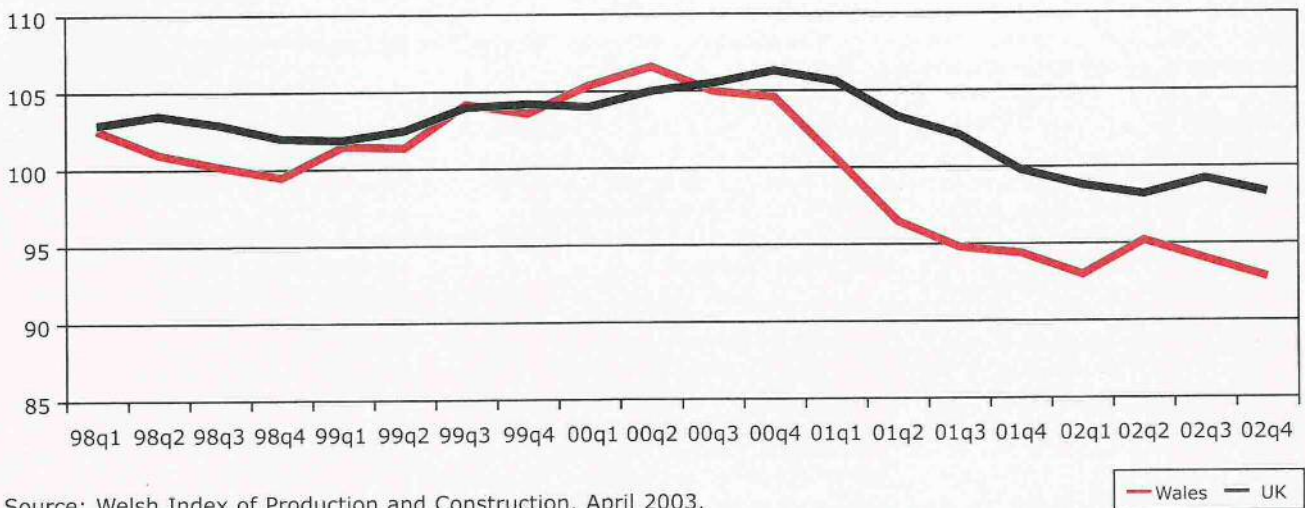


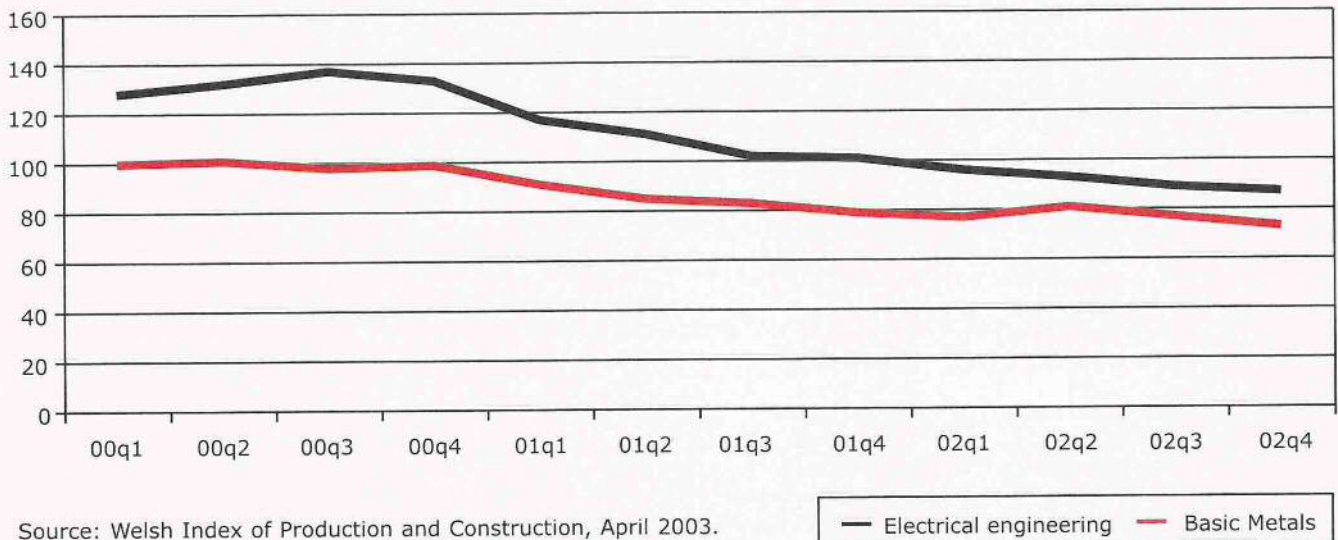
Table 12: Welsh Trade in Goods (£m)

	2001	Q4 2001	Q1 2002	Q2 2002	Q3 2002
Imports Outside EU	3781	947	894	953	719
Imports To EU	1968	469	540	559	590
Total	5749	1416	1434	1512	1309
Exports outside EU	1947	439	379	406	418
Exports to EU	4736	1136	1077	1185	1052
Total	6683	1575	1456	1591	1470

Source: www.hmce.gov.uk

Figure 5 Welsh and UK Index of Manufacturing (1995=100)

Source: Welsh Index of Production and Construction, April 2003.

Figure 6: Welsh Index of Electrical Engineering and Basic Metals Production

Source: Welsh Index of Production and Construction, April 2003.

exports to areas outside of the EU-15 increased slightly during the first three quarters of last year. However, the much larger export volumes to the EU-15 decreased by 11.2% in the third quarter of last year. Total imports of goods fell by 13.4% during 2002Q3.

During 2002 only two sectors of manufacturing increased production volumes – food and drink, and transport equipment. Output in the food and drink sector increased by 13.7% in the year to 2002Q4. Sector prospects were strengthened in 2002 as a number of food production firms announced expansions including Tillery Valley Foods (Cwmillery), OP Chocolate (Merthyr) and Avana Bakery (Newport). During

last year St.Merryn meats at Merthyr Tydfil announced that it was expanding its workforce from 600 to nearly 1,000 people to meet new demand from Tesco supermarkets. Finally during 2002Q1, a £17m joint venture was announced by chilled-dairy-foods group, Dairy Crest, and First Milk, the UK's largest milk supply business, to create Haverfordwest Cheese Limited.

Output in transport equipment increased by 17.7% in the year to 2002Q4. Prospects for this sector in Wales were boosted as Airbus, which employs around 3,000 people at its aerospace factory in Broughton, announced a new contract with Middle Eastern Airlines to build six A321 planes,

as well as confirming an order with German carrier Lufthansa. TRW Cam Gears at Resolven also announced an expansion of its facility during the first quarter of this year.

Other manufacturing sectors had a poor 2002. In the year to 2002Q4 output fell in textiles (8.6%), pulp, paper and printing (3.1%), chemicals (3.9%), non-metallic mineral products (7.6%), basic metals (7.6%), machinery (4.1%), and electrical and optical (13.9%).

Last year was particularly bad for Welsh electronics, with output levels down almost 20% on those in 2001 and with few prospects of a recovery this year. Vulnerable plants include LG Philips

(Newport) which produces computer monitors and employs 1,200 people. The firm revealed last year that part of its UK production is to be moved to the Czech republic. In the basic metals sector there is little prospect of any increases in output during 2003. Sector prospects were damaged last year as

Allied Steel and Wire (Cardiff) called in receivers during July. The company laid off most of its 650 production staff at the end of July, leaving around 200 to carry out routine maintenance. The Spanish firm Cespa is expected to take over operations at the ASW Cardiff rod mill this year. Financial results from

Corus in the first quarter of this year also point to the need for further rationalisation of its UK plants. Hence further jobs losses at Corus main facilities in Wales cannot be ruled out. Figure 6 reveals the sharp falls in output in electrical and optical equipment and basic metals sectors since 2000Q1.