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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 for Wales is produced collaboratively between the National Assembly for Wales and the Office for National Statistics (ONS). The majority of data to generate the index comes from the ONS's Monthly Production Inquiry. The index provides an important 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.

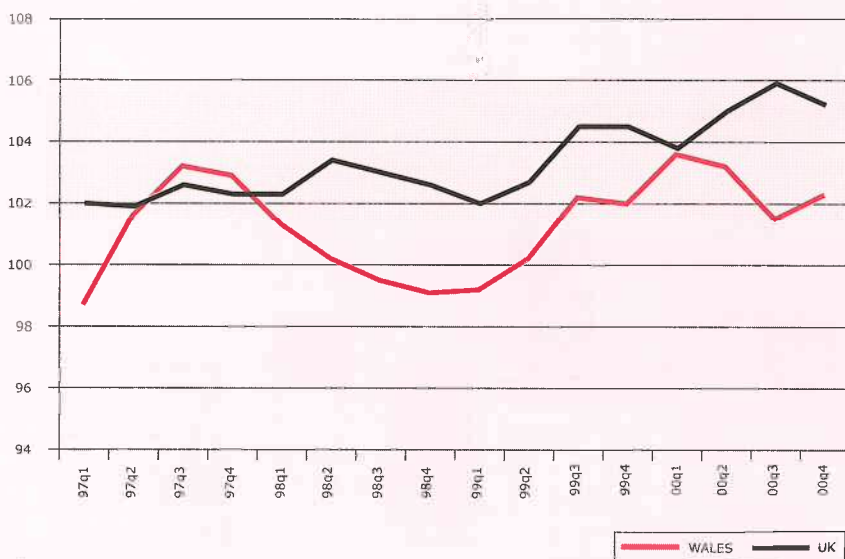
Figure 4 tracks recent changes in the overall indices of Welsh and UK production (including manufacturing, mining and quarrying and the utilities sectors). During 1997 the Welsh index of production grew comparatively quickly and overtook the UK index. Since 1998Q1 there has been higher output growth in the UK as a whole, compared to Wales, such that a significant gap opened up. During 1999 stronger than expected Welsh output

performance saw this gap almost close by 2000Q1. Unfortunately 2000Q2 and Q3 have seen this gap open considerably once more, and even though figures for 2000Q4 show a slight recovery in Welsh output, the UK index is still around 3 points higher.

Several factors explain the gap between the UK and Wales indices during 2000. First is the poor recent output performance of the mining and quarrying and electricity, gas and water sectors in Wales, compared to the UK as a whole. For example, the index for electricity, gas and water fell by almost 12% in Wales between 2000Q1-Q4, while the UK index grew by almost 4% over the same period. The electricity, gas and water index can be heavily influenced by one-off events. The poor results for the energy and water sector in the first three quarters were largely attributable to the closure of both reactors at Wylfa nuclear power station on Anglesey in April last year. Wylfa has historically produced around half of Wales' electricity.

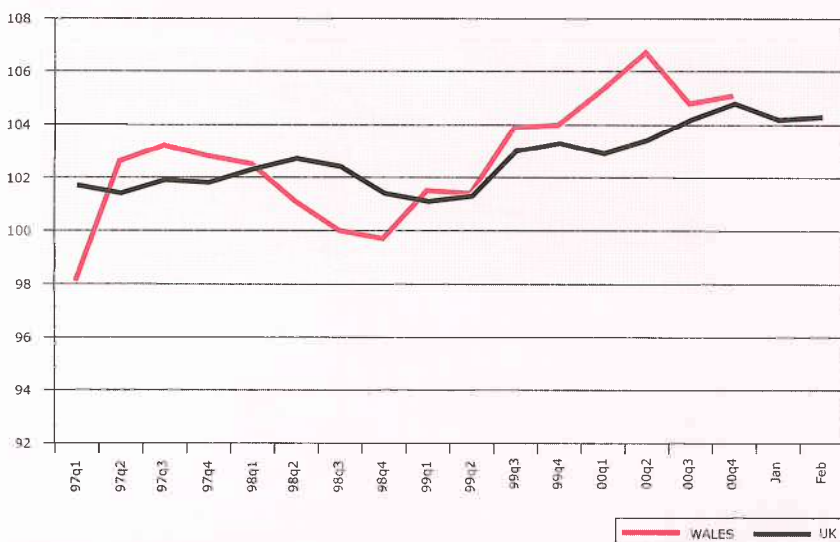
The second reason for the UK/Wales production index gap is the poor performance of the Welsh manufacturing index during the second half of 2000, although the average index value for the year was some 2.6% higher than for 1999. Manufacturing has a particularly heavy weight (around 87%) in the overall Welsh production index, such that a relatively poor manufacturing output performance exerts a strong influence on the direction of the overall production index. Figure 5 shows recent trends in the indices of Welsh and UK manufacturing, and reveals a divergence of Wales and the UK indices during 1998. However, during 1999 the index of Welsh manufacturing grew considerably faster than the index for the UK as a whole. This was a particularly strong performance given that the strength of Sterling was damaging export prospects in some of Wales' largest manufacturing companies over the period. A strong growth of output in 1999 was particularly noticeable in sectors such as transport equipment, electrical and optical equipment, and engineering – each sector having a large number of foreign inward investors. Whilst output growth in electronics and engineering was maintained during 2000, output in transport fell dramatically in the second half of 2000. This decline, together with poor recent performances in textiles, food and other manufacturing, (including wood and rubber products) (see Figure 6), contributed to the fall in manufacturing output between 2000Q1-

Figure 4 Index of Production, Wales and UK, 1997Q1-2000Q4, 1995 = 100



Source: Welsh Index of Production

Figure 5: Index of Manufacturing Output, Wales and UK, 1997Q1-2000Q3



Source: Welsh Index of Production

Q4. Although output jumped by over 1 point during the second quarter of 2000, this was not sustained during the second half of the year.

The critical question is where the Index of Production is likely to go next? In the UK, both the production and manufacturing indices declined slightly in the opening months of 2001, and it is very difficult to foresee sustained growth in the index of Welsh production into the first half of 2001. Improvements in the index of electricity, gas and water sector are unlikely. However, the key concern is Welsh manufacturing, where the second half of 2000 and early 2001, have seen a large number of redundancies announced. Of particular relevance to the direction of the manufacturing index were redundancies in the consumer

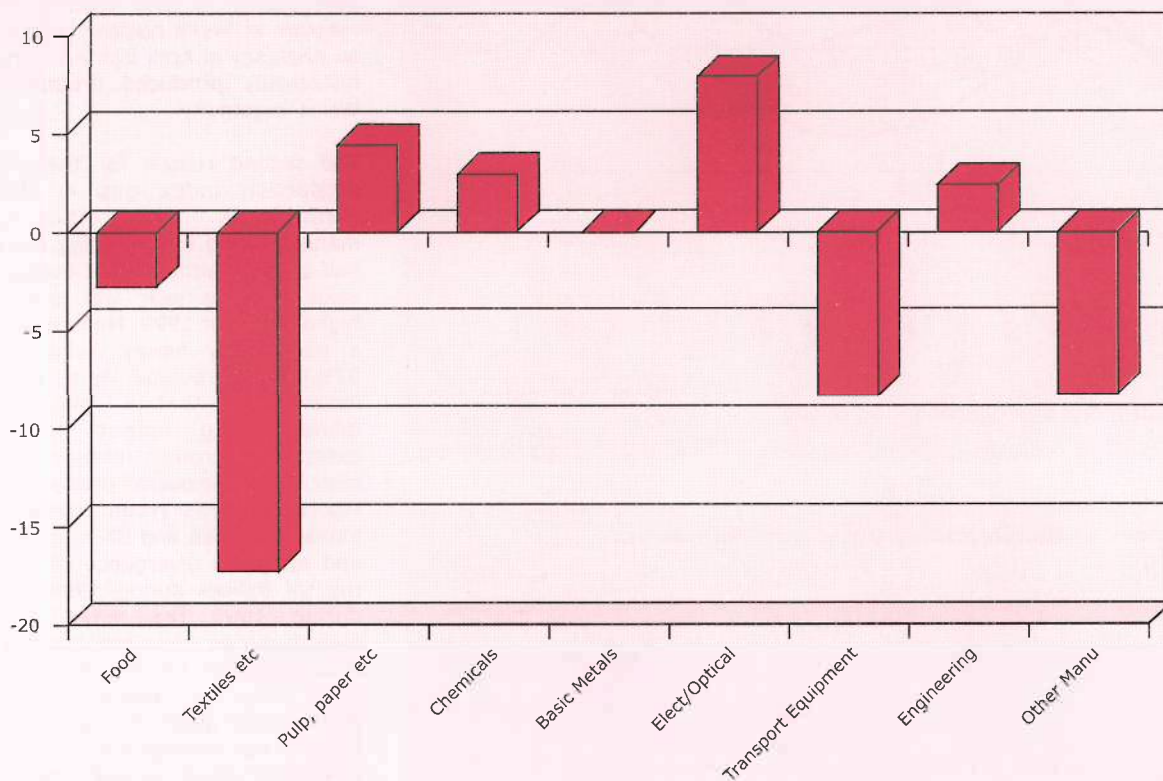
electronics sector (Sony, Hitachi, and Panasonic), and in the basic metals sector. Basic fabricated metal products have a heavy weight in the manufacturing index hence employment and consequent output losses expected at Ebbw Vale, Bryngwyn, Llanwern and Shotton during 2001 could push the overall manufacturing index down.

Things are little better in several other sectors as Figure 6 demonstrates. Textiles in Wales remain vulnerable to overseas competition, and some of the more labour intensive elements of the automotive components sector are already seeing cost savings from production in Central and Eastern Europe. Poor conditions in some parts of the automotive sector led to job losses during 2000 at Krupp Camford Pressings and Calsonic (Llanelli), Lucas SEI

(Ystragynlais) and Fenner (Maerdy). However, more than 1,400 jobs were secured and a further 500 will be created at Ford (Bridgend), following an announcement by the parent company that the plant was to supply the Duratec engine after 2003. Other good news in transport equipment came in September 2000 at the British Aerospace Broughton plant in North Wales, which has been awarded the contract to produce the wings for the new A3XX Airbus which will both create and safeguard employment at the plant.

Ultimately, the manufacturing index in Wales during 2001 will be shaped by national and global conditions, which are looking increasingly uncertain in the first quarter.

Figure 6: Change in the Index of Welsh Manufacturing (%) 2000Q1-Q4



Source: Welsh Index of Production