Industrial Activity

The index of production for Wales shows the short term movements in the outputs of industries. Information relating to the third quarter of 2011 was released in January 2012.

Figure 3 shows the trend in the index of production as a whole from 2004Q1. From 2009Q3 the index of production as a whole for Wales has been trending at around 10% below 2008 levels (the index base year 2008=100). The UK index also shown in Figure 1 has trended somewhat above the Welsh index for much of 2010 and 2011 but with some closing of the gap in the third quarter of last year. Taking the last four quarters of the Welsh index of production and comparing with the previous four quarters reveals a fall of 0.3% while the UK index rose by 0.4% over these same quarters. A little more encouraging was the fact that the index of production for Wales in 2011Q3 was actually 1.5% higher than it had been in 2010Q3, and was a full 2.0% higher than it had been in 2011Q2.

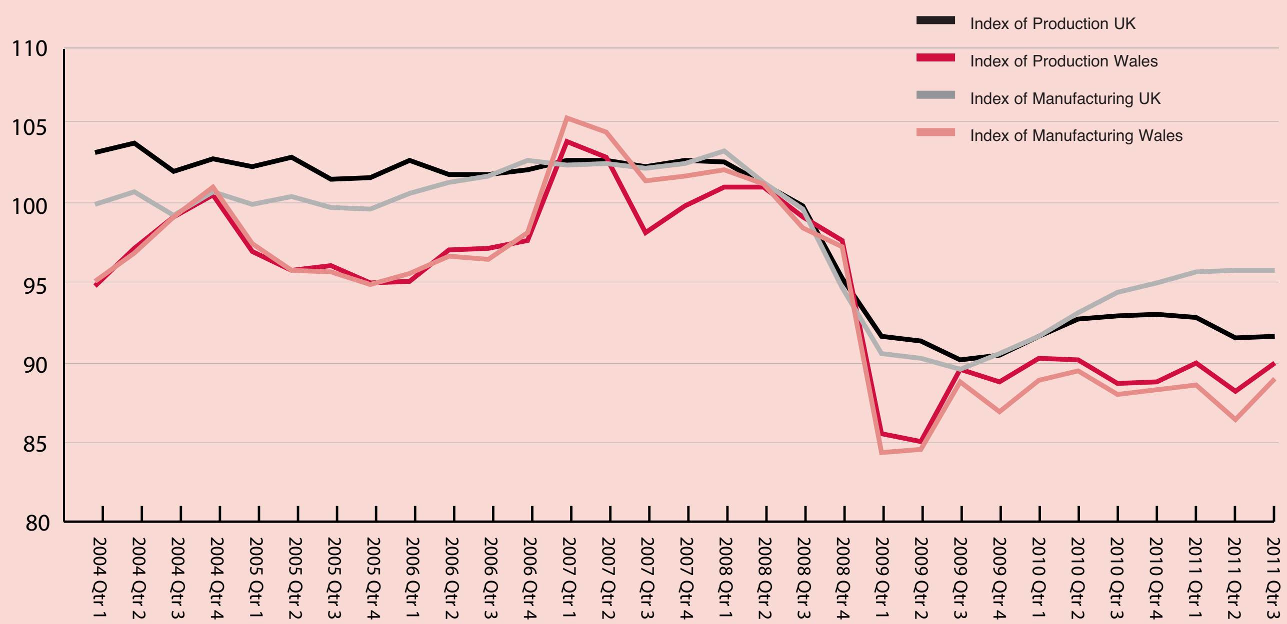
The index of production is made up of a large number of industries and it is useful to drill down into the index to explore recent winners and losers. Manufacturing makes up a large part of the index in terms of weights. In the year to 2011Q3 the index of manufacturing for Wales increased by 1.1% (UK 1.5%). While the manufacturing sector as a whole appears to be holding its own in the recent tough times, the index values in the closing months of last year were still well down on 2007-08. Also, more disconcerting is how far the Welsh index of manufacturing is lagging behind its UK counterpart. There is a strong hope that manufacturing sectors will lead the Welsh economy out of recession, but the evidence in Figure 3 reveals a sector that is still failing to see any strong growth in output.

The challenge facing the manufacturing sector needs to be set in the context of what has happened to individual elements of this sector in the last five years. Figure 4 shows for each manufacturing sector in Wales the value of the index in the third quarter of each year. It reveals the biggest winners and losers through the period of economic difficulty.

In the important food and drink sector current output levels are around 24% below what they were in 2007Q3. Textile and leather products have fared even worse. Output in the oil refining sector at Milford Haven has largely been maintained. Wales' two last refineries have faced difficult times but are still among Wales' largest exporters. During 2011 the Chevron refinery was purchased by Valero, and with the Murco refinery also now for sale. Milford Haven handled 14.1m tonnes of crude oil in 2010, and 17.3m tonnes of oil products. The refineries are an important element of the regional export base, and the maintenance of output revealed in Figure 4 is possibly one of the reasons why Welsh overseas exports were maintained at a high level through the recession (see below). The refining sector at Milford faces severe pressures but as the UK refining sector has shrunk, the remaining Welsh refineries represent a larger share of UK refining capacity (around 20% of capacity in 2010). Importantly a key trend in the sector is refineries becoming dependent on the refining margin alone i.e. the difference between the input crude price and the ex-refinery transfer price to the distribution sector. Structural change in this sector is far from over.

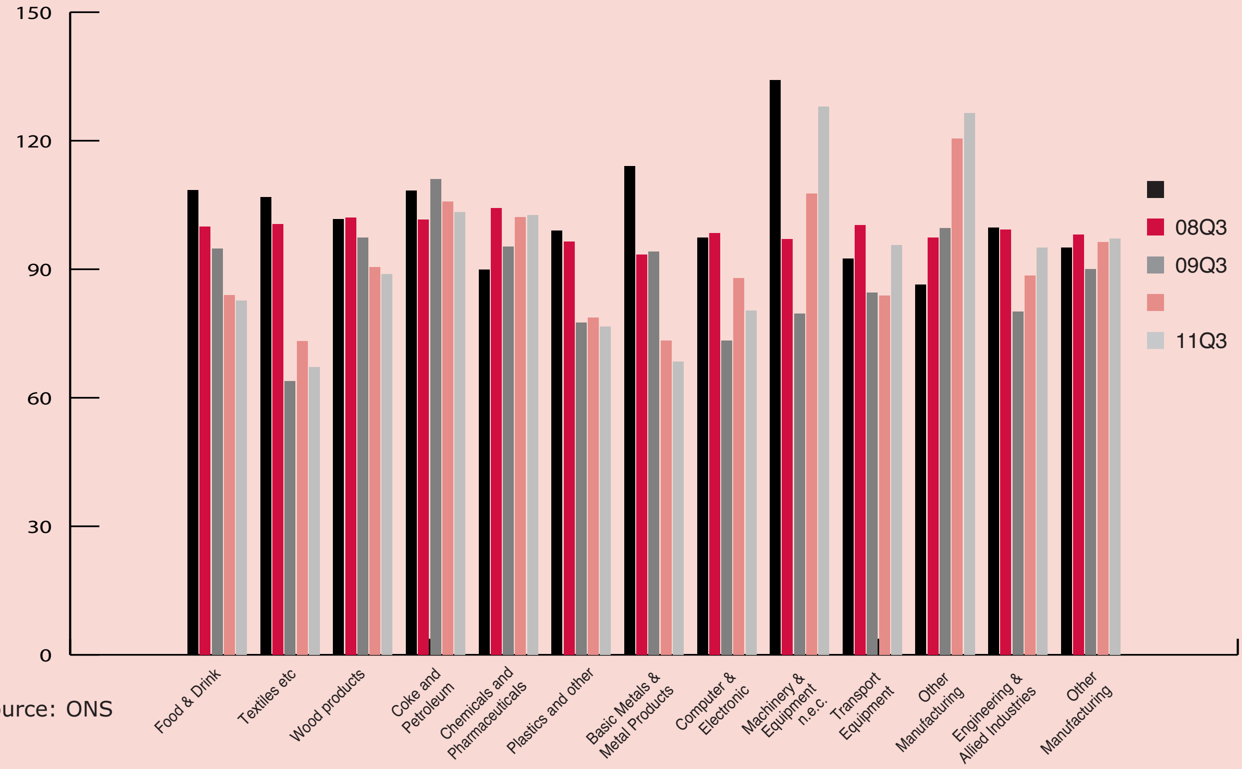
Other areas of interest in Figure 4 include the sharp fall in the output of basic metals and metal products sector. Important here are the operations of the Tata group who took over Corus interests at the integrated Port Talbot mill and other satellite activities throughout Wales. Figure 4 evidences something of a strong recovery in the

Figure 3 Index of Production and Manufacturing for Wales and UK 2004-2011Q3



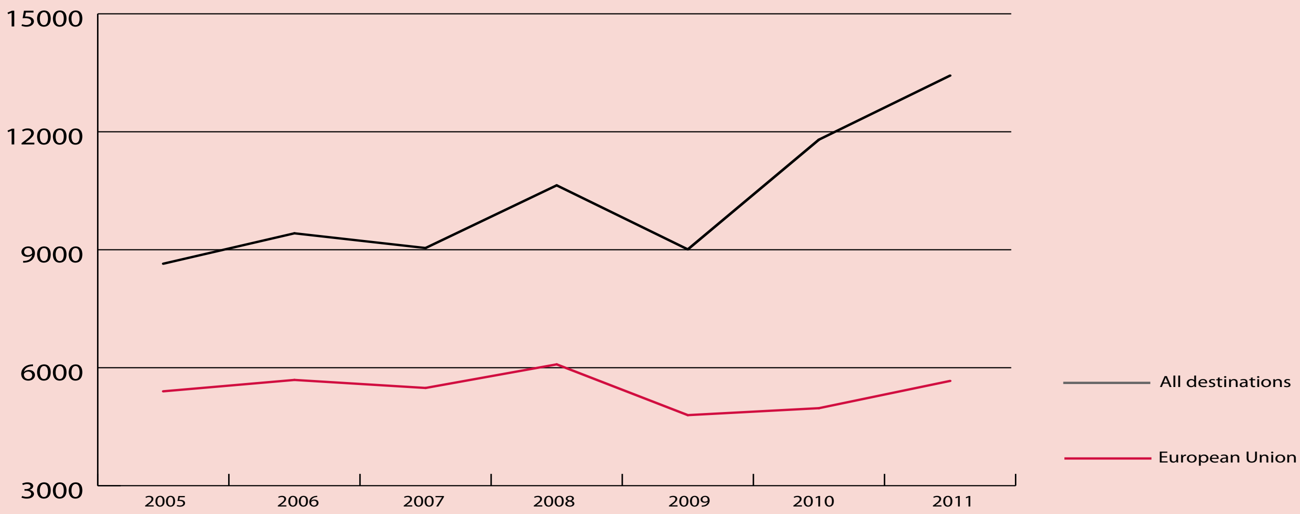
Source: ONS

Figure 4: Index of Manufacturing Sectors 2007Q3-2011Q3



Source: ONS

Figure 5: Welsh Exports, £m, 2005 - 2011



Source: HMRC

machinery sector, and in other manufacturing and repair.

The changes revealed in Figure 4 are occurring over a period through which Wales has struggled to attract new inward investment in manufacturing (and other sectors) from overseas. Indeed recent research undertaken by Crawley *et al.*, (2012) reveals a weakening of Wales' marketing effort overseas and issues of poor coordination of this marketing effort. These themes have also been picked up in the 2011-12 Inquiry by the Welsh Affairs Committee into *Inward Investment in Wales* which is also expected to be critical of Wales' poor recent performance in attracting foreign investment. This in combination with the information in Figure 4 highlights a need for Welsh agencies to work more closely with existing inward investors to win new investment.

Exports

Figures for UK regional exports for 2011Q4 were released by HM Revenue and Customs in April. Figure 5 shows the trend line in total Welsh exports from 2005.

Given the difficult economic times the export figures provide some encouraging news. Total exports for the year to 2011 quarter 4 increased by 13.8%. In total Welsh exports for the four quarters to 2011Q4 were up by £1,629m compared to the previous four quarters. Of real encouragement in Figure 5 was the growth of exports from outside of the European Union. Breaking the relatively strong dependence on trade within the Eurozone is expected to become more important in 2012 and 2013. In 2011 around 42% of Welsh exports were to North America, Asia and Oceania. Almost 60% of Welsh exports in 2011 were in the energy and engineering sectors.

Reference

Crawley, A. *et al* (2012), *Selling Wales: The Role of Agencies in Attracting Inward Investment.* Report for Cardiff Business Partnership by Cardiff Business School.