

# Economic Intelligence Wales

## *Quarterly report*

**November 2023**

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*The ONS has advised on the production of this report but is not responsible  
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# Summary

This is the first Economic Intelligence Wales quarterly report of the 2023/24 financial year.

UK economic conditions continue to be challenging, with inflation, interest rates and the cost of living continuing to dominate headlines. In September 2023 the Bank of England decision was to leave interest rates unchanged at 5.25%.

Internationally, inflationary pressures and raising central bank rates have constrained global growth, although these pressures may be easing. The International Monetary Fund's growth projections for 2023 were slightly upgraded to 3% in their recent World Economic Outlook. Whilst China's recovery has slowed during 2023, this has not significantly impacted global growth as yet, as some other major economies, such as the US, have experienced better than expected growth.

## **Economic conditions facing small enterprises.**

ONS data shows that the annual rate of producer output (factory gate) prices increased by 0.3 of a percentage point from a fall of 0.7% in July 2023 to a fall of 0.4% in August. The twelve-month Consumer Price Index (CPI) inflation rate in the UK was 6.7% in August 2023, down from 6.8% in July. These rates contrast with the recent peak of 11.1% in October 2022.

Following an increase of 0.1% in 2023Q1, the first quarterly estimate of UK real gross domestic product (GDP) from the ONS shows that the economy increased by 0.2% in 2023Q2 (April to June 2023). GDP Monthly estimates show the UK economy contracted by 0.5% in July 2023, following growth of 0.5% in June 2023, and a decrease of 0.1% in May.

UK business investment grew by 3.4% in 2023Q2. This followed a 3.3% increase in 2023Q1. Business investment in 2023Q2 was 4.5% above that of 2019Q4, the quarter before the COVID-19 pandemic.

The number of UK job vacancies was 989,000 in the period June to August, decreasing 64,000 from the previous quarter, March to May 2023. In June to August 2023, total vacancies were down by 268,000 from the level of a year ago.

Early estimates from PAYE Real Time Information show a rise in the number of payroll employees in the UK for August 2023 to 30.1m, an increase of 1.5% over the figure for August 2022. In Wales the number of payroll employees grew by 18,000 (or 1.4%) to 1.32m in the year to August 2023.

The UK unemployment rate for the three-month period to July 2023 was an estimated 4.3%, an increase of 0.5 of a percentage point from the previous three-month period. In Wales the unemployment rate for the three-month period to July 2023 was 3.8% (down 1.1 percentage points from the previous three months).

During the year to August 2023, the UK unemployment-related benefit claimant count increased by 0.03m to 1.55m people. In Wales, 61,000 people claimed unemployment-related benefits (equal to 3.2% of the working age population, compared with a figure of 3.7% for the UK) in August 2023, a decrease of 2,800 claimants from the year to August 2022.

According to the Labour Force Survey, the UK redundancy rate for the three-month period to July 2023 was 3.6 per 1,000 employees. In Wales the estimate is not available for the three months to July. However, for the three months to June the rate for Wales was 2.6 per 1,000 employees.

Output indices in Wales had remained relatively stable for about 8 consecutive quarters up to 2023Q1. While the market services index has been slightly above the pre-pandemic year of 2019, the production index for Wales has not recovered to 2019 levels, and with the index declining in 2023Q1. By contrast, the Welsh construction index has shown strong growth in 2022Q4 and 2023Q1.

# Summary

In their Summer 2023 UK Economic Outlook, the National Institute of Economic and Social Research forecast UK GDP growth of 0.4% in 2023, and 0.3% in 2024.

## The demand and supply of SME finance

Following some recovery in 2023Q1, the UK small business confidence index from the FSB decreased in 2023Q2. The confidence index moved from -45.8 in 2022Q4 to -2.8 in 2023Q1 and then to -14.2 in 2023Q2.

Since 2021Q2, the number of business deaths in Wales have exceeded business births in all but one quarter (2022Q2). In Wales there were 2,580 business births and 3,015 business deaths in 2023Q2.

The ONS Business Impacts and Conditions Survey for 21 August 2023 to 3 September 2023 (Wave 90) reported a decrease in the percentage of businesses that permanently ceased trading to 1.3% (the figure was 3.0% between 16 May and 11 June 2023). Welsh respondents ranked energy prices and falling demand as their main concerns.

The number of insolvencies in England and Wales saw a sharp decrease from 2,551 in May 2023 to 1,727 in July 2023. The decrease was mainly driven by creditors' voluntary liquidations, which decreased from 2,176 in May 2023 to 1,336 in July 2023.

Compared with 2022Q2, county court judgements in England and Wales were up 20% to 277,000 in 2023Q2, with 92% of these being default judgements. Meanwhile, county court claims increased by 12% to 419,000 compared with 2022Q2. These increases are concerning as county court judgments for debt can partially predict future insolvencies.

The Bank of England's quarterly Credit Conditions Survey of banks and building society lenders reports a relatively stable supply and demand

for business lending in 2023Q2. Default rates on business lending were reported to have remained stable across businesses of all sizes during 2023Q2. However, the report anticipated that default rates would rise for small enterprises.

The SME Finance Monitor 2023Q2 showed the proportion of SMEs that had used any external finance in the past three months increased from 34% in 2022Q4 to 44% in 2023Q2.

Bank of England data shows that the growth rate of SME loans was -4.2% in July 2023, marking a decrease in SME loans for 23 months since September 2021. Meanwhile, the average interest rate on SME loans increased for 22 consecutive months, from 2.65% in October 2021 to 7.55% in July 2023.

The Bureau van Dijk FAME database revealed that 5.8% of SMEs in Wales were estimated to be in the highest risk credit rating category, up from around 4.7% in September 2022.

## Development Bank of Wales

In 2023/24 Q1 the Development Bank of Wales completed 114 investments, with a total value of almost £27m. These investments were associated with almost 700 new and safeguarded jobs.

New debt and equity investment in 2023/24Q1 was almost £18m, with a further almost £9m of property development investment. Businesses in south east Wales received almost half of total investment funds during 2023/24 Q1, with firms located in mid and south west Wales receiving around 29% of funds, and businesses in north Wales accounting for almost 23% of investment funds.

This report provides a review of economic data relevant to SME development in Wales, and a summary of the investment activities of the Development Bank of Wales during the first quarter of the 2023/24 financial year. The report includes commentary on the global and local economic context and conditions affecting the supply and demand for finance in Wales.

Sections 2-4 of this report provide the macroeconomic context within which Welsh SMEs operate and examines factors relating to the demand for, and supply and cost of, SME finance. Section 5 summarises the activities of the Development Bank of Wales. The final section provides some overall conclusions to the report.

This report is largely based on publicly available data (generally reported in calendar years) together with a special analysis of data provided by the Development Bank of Wales (mostly reported in financial years). Due to differences in reporting

periods, there will be some slight temporal mismatch of data within this report.

As highlighted in the already published annual report for 2022/23, Economic Intelligence Wales has expanded to include new academic partners, Bangor Business School and the Enterprise Research Centre. The expanded collaboration which now makes up Economic Intelligence Wales will publish a series of outputs during the 2023/24 year including reports on:

- A final evaluation on the impacts of Welsh Government Covid-19 financial interventions for businesses,
- R&D-intensive businesses in Wales,
- Assessing the availability of early-stage equity in Wales,
- Net zero carbon policies and SME initiatives towards decarbonisation.

- Increases in central bank rates continued to impact on growth and constrained the global economy in 2023Q2. However, there were some signs of easing as the International Monetary Fund's global growth forecast for 2023 was upgraded, by 0.2 of a percentage point, to 3.0%.
- The Bank of England decided to leave interest rates unchanged at 5.25% in September 2023, noting that there was growing evidence of some impact from tighter monetary policy on the labour market and the economy in general.
- First quarter estimated GDP data indicated that the UK economy grew by 0.2% in 2023Q2, marginally above the 0.1% growth rate in the previous quarter.
- Twelve-month Consumer Price Index (CPI) inflation in the UK was 6.7% in August 2023, down from 6.8% in July.
- The unemployment rate in Wales in the three-month period to July 2023 was down 1.1 percentage points on the previous quarter, to 3.8%. The comparative UK rate was 4.3% (up 0.5 of a percentage point on the quarter).

## Global prospects

In the International Monetary Fund's (IMF) World Economic Outlook<sup>1</sup> published in July 2023, the forecast for world gross domestic product (GDP) was for growth to slow from 3.5% in 2022 to 3.0% in 2023. This was a 0.2 percentage point higher than that forecast in the April 2023 World Economic Outlook<sup>2</sup> but still relatively low compared to past global growth rates.

The IMF forecast for global GDP growth in 2024 was 3.0%, this being somewhat higher than the latest World Bank June prediction of 2.1%.<sup>3</sup> According to the IMF, GDP growth in the United States was forecast to be 1.8% in 2023, before falling to 1.0% in 2024, with the comparative figures for the Euro area standing at 0.9% in 2023 and 1.5% in 2024. In the UK the projection for 2023 was upgraded by 0.7 of a

percentage point from the April 2023 outlook report, to 0.4%, and with a projected 1.0% growth in 2024. The reasons for the projected relative recovery in the UK GDP growth rate were described as reflecting stronger-than-expected consumption and investment following falling energy prices; the Windsor Framework agreement decreasing Brexit uncertainty; and more confidence in the banking sector as the March "global banking stress dissipates"<sup>4</sup>.

The IMF noted that increases in central bank policy rates, to address inflation, continued to impact on growth, while forecasting global headline inflation to fall from 8.7% in 2022, to 6.8% in 2023, and 5.2% in 2024, but with core inflation likely to fall more slowly. The OECD Economic Outlook, Interim Report<sup>5</sup> published

<sup>1</sup> <https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023>

<sup>2</sup> <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023>

<sup>3</sup> <https://openknowledge.worldbank.org/server/api/core/bitstreams/6e892b75-2594-4901-a036-46d0dec1e753/content>

<sup>4</sup> Page 5 of IMF July 2023 World Economic Outlook Full Report: <https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023>

<sup>5</sup> <https://www.oecd-ilibrary.org/sites/1f628002-en/index.html?itemId=/content/publication/1f628002-en#chapter-d1e50-37ed2a2086>

in September 2023, forecast that UK inflation in 2023 would average 7.2%, an increase of 0.3 of a percentage point from its previous prediction for the year, and a higher rate than any other advanced economy for 2023.

Risks to global economic activity identified in the IMF World Economic Outlook report<sup>6</sup> included

further inflationary pressures resulting from an escalation of the conflict in Ukraine; and a slowdown in China's recovery, potentially arising from a contraction in the nation's real estate sector (with, for instance, Country Garden, one of China's biggest real estate firms, currently in a precarious position due to mounting debts<sup>7</sup>).

## Some easing of UK inflationary pressures

Data from the ONS highlights that the annual rate of producer output (factory gate) prices increased by 0.3 of a percentage point from a fall of 0.7% in July 2023 to a fall of 0.4% in August. This was the first month on month increase in the annual rate since July 2022, but the second month in a row that the rate had been negative.<sup>8</sup>

Refined petroleum products had the largest downward contribution to the annual output inflation rate in August 2023, with a negative contribution of 3.5 percentage points. The largest offsetting upward contribution to the annual output inflation rate in August 2023 came from other outputs from manufacturing (1.2 percentage points). The ONS noted that while annual producer price inflation rates had turned negative, with prices in some sectors falling, the index levels for both input and output prices remained substantially higher than their 2021 levels.

According to the ONS, twelve-month Consumer Price Index (CPI) inflation in the UK was 6.7% in August 2023, down from 6.8% in July.<sup>9</sup> These rates contrast with the recent peak of 11.1% in October 2022. Slowing food prices were seen as one of the primary influences on the 'surprise' fall in inflation in August 2023.<sup>10</sup>

In September 2023, the Bank of England decided to leave interest rates unchanged at 5.25%. It noted in its Monetary Policy Summary<sup>11</sup> for September that there was growing evidence of some impact from tighter monetary policy on the labour market and the economy in general. This included a steady decrease in the number of vacancies alongside increasing unemployment in the UK, and expectations that the UK economy will grow at a more subdued rate due in part to recent increases in borrowing costs.

<sup>6</sup> <https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023>

<sup>7</sup> <https://www.theguardian.com/world/2023/aug/31/country-garden-chinese-property-developer-reports-half-year-financial-loss-fears-default-risk>

<sup>8</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/august2023>

<sup>9</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest>

<sup>10</sup> <https://www.bbc.co.uk/news/business-66844295>

<sup>11</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/september-2023>

## UK GDP growth estimates show that the economy expanded slightly in 2023Q2

Following an increase of 0.1% in 2023Q1, the first quarterly estimate of UK real gross domestic product (GDP) from the ONS shows that the economy increased by 0.2% in 2023Q2 (April to June 2023)<sup>12</sup>. Of particular interest, at the beginning of September 2023, was the announcement by the ONS that the UK economy had made a much more robust recovery during Covid at the end of 2021 than had previously been estimated.<sup>13</sup> "Richer data" from its annual surveys and administration data enabled the ONS to recalculate previously published figures so that: the UK economy was now estimated to be 0.6% larger in the last three months of 2021 compared to pre-pandemic levels (this compares to the original estimate that the UK economy was 1.2% smaller); the collapse in the UK economy during the lockdown in 2020 was smaller than first estimated (output declining 10.4%, instead of 11.0%); and the recovery in 2021 was faster than initially calculated, with GDP growth of 8.7% instead of 7.6%. Taken together, some commentators have suggested that the entire UK post-pandemic economic narrative of sluggish growth "had just been revised away".<sup>14</sup>

By sector, output in services rose by an estimated 0.1% in 2023Q2, following a 0.1% increase in 2023Q1. The information and communication sub-sector (which increased by 1.0% in 2023Q2), along with accommodation and food service activities (which in 2023Q2 rose by 1.6%) provided the largest positive contribution to growth. The increase in the latter was driven

by food and beverage services which saw a strong June, with the ONS citing anecdotal evidence that fine weather and an increase in live events boosted turnover for businesses during this month. There was an output decline in professional, scientific, and technical activities of 1.0% in 2023Q2, with falls in scientific research and development, architectural and engineering activities and advertising and market research.

In 2023Q2, production output grew by 0.7%, following an increase of 0.1% in the previous quarter. The main driver of this growth was in manufacturing (increasing 1.6%), with eight out of its thirteen sub-sectors showing an increase in the quarter. The ONS noted this may reflect falling input prices across the period taking some of the financial pressures off manufacturing. The manufacture of motor vehicles, trailers, and semi-trailers sector performed particularly strongly in the quarter. The Society of Motor Manufacturers and Traders (SMMT) reported a 31.6% increase in the production of cars in the UK, for the year to July 2023<sup>15</sup> as recovery from recent challenges, such as global chip shortages, continued.

GDP Monthly estimates show the UK economy contracted by 0.5% in July 2023,<sup>16</sup> following growth of 0.5% in June 2023, and a decrease of 0.1% in May. The decline in GDP in July has been partly related to industrial action in the health sector and wet weather impacting construction and retail sectors.

<sup>12</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/apriltojune2023>

<sup>13</sup> <https://www.bbc.co.uk/news/business-66680188>

<sup>14</sup> <https://news.sky.com/story/the-uk-actually-fared-much-better-after-covid-than-first-thought-heres-why-it-matters-12952220>

<sup>15</sup> <https://www.smmt.co.uk/2023/08/six-months-of-growth-for-uk-car-production/>

<sup>16</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/july2023>



## UK business investment increased in 2023Q2

According to the ONS, UK business investment in 2023Q2 grew by 3.4% (provisional estimate).<sup>17</sup> This followed a 3.3% increase (revised estimate) in 2023Q1.<sup>18</sup> The major positive contribution to this growth was in transport, a sector where the ONS notes, investment can be volatile due to the high value of some transport equipment. During 2023Q2 investment was relatively strong in air transport which increased by 23%.

Following a strong 2023Q1, information and communication technology (ICT) equipment, and other machinery and equipment, saw a fall in investment in 2023Q2, reflecting the end of the super-deduction incentive, a temporary tax relief on qualifying capital asset investment, on the 31st of March 2023. Business investment in 2023Q2 was 4.5% above that of 2019Q4, the quarter before the COVID-19 pandemic.<sup>19</sup>

## Announcement on the future of Port Talbot steelworks

In mid-September 2023 it was announced that Tata's Port Talbot plant, the UK's biggest steelworks, would receive up to £500m of UK government investment, along with £700m from Tata Steel itself, to keep the site operating and aid its transformation to greener production - cutting emissions by installing new electric arc furnaces.<sup>20</sup>

However, concerns arose that up to 3,000 jobs could be lost across the UK if this move to less labour-intensive methods of steel production were made, and there would be a requirement for the UK to rely on imports of certain types of steel that the proposed new furnaces could not produce.

## Continuing fall in job vacancies in the UK

The number of UK job vacancies was 989,000 in the period June to August – decreasing 64,000 from the previous quarter, March to May 2023.<sup>21</sup> In June to August 2023, total vacancies were down by 268,000 from the level of a year ago, although they remained 188,000 above their pre-pandemic January to March 2020 level. The largest

proportional decreases in vacancies in June to August 2023 from the previous quarter were in the industries of administrative and support service activities (decreasing 15.7%), and professional, scientific, and technical activities (down 12.1%).

Early estimates from Pay as You Earn Real Time Information<sup>22</sup> show a rise in the number

<sup>17</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/apriltojune2023provisionalresults>

<sup>18</sup> Business investment data is subject to significant revision following the first (provisional) estimate.

<sup>19</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/grossfixedcapitalformationbysectorandasset>

<sup>20</sup> <https://www.bbc.co.uk/news/uk-wales-66819458>

<sup>21</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/september2023>

<sup>22</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimetypeinformationuk/september2023>

of payroll employees in the UK for August 2023 to 30.1m, an increase of 449,000 employees (or 1.5%) over the figure for August 2022, and a rise of 1,120,000 (or 3.9%) since February 2020.

In the year to August 2023, the increase in payrolled employees in the UK was largest in the health and social work sector (an increase of 193,000 employees or 4.7%) and smallest in the wholesale and retail sector (a decrease of 19,000 or -0.4%).<sup>23</sup> The wholesale and retail sector, administrative and support services, construction, accommodation and food services, and agriculture, forestry, and fishing category experienced a fall in payrolled employees between August 2022 and August 2023. The percentage increases in payroll

employees over the year was highest in energy production and supply (8.7% or 9,000 employees), finance and insurance (5.0% or 53,000 employees), and health and social work (as noted above, 4.7% or 193,000 employees).

In Wales the number of payrolled employees grew by 18,000 (or 1.4%) to 1.32m in the year to August 2023.<sup>24</sup> The UK regional data on payroll employees by sector is updated less frequently, but the data to July 2023 shows that the percentage increase in payroll employees over the year was highest in finance and insurance (7.7% or 2,800 employees).<sup>25</sup> Over the year to July 2023, there was an increase of 11,300 (or 5.2%) payrolled employees in the health and social work sector in Wales, and 5,000 (or 2.7%) in education.

## The unemployment rate increases in the UK but falls in Wales

The UK unemployment rate for the three-month period to July 2023 was an estimated 4.3%, an increase of 0.5 of a percentage point from the previous three-month period.<sup>26</sup> The highest UK regional unemployment rates in the three-months to July 2023 were in the North West (5.3%), North East (5.2%), and the West Midlands (5.0%), while the lowest rates were in Northern Ireland (2.7%), Yorkshire and The Humber (2.9%), and the South West (3.6%). In Wales the unemployment rate for the three-month period to July 2023 was 3.8% (down 1.1 percentage points from the previous three months).

The UK redundancy rate for the three-month period to July 2023 was 3.6 per 1,000 employees according to the Labour Force Survey.<sup>27</sup> This was a decrease from the previous three-month period (April to June 2023) where the redundancy rate stood at 3.8. The UK redundancy rate

saw a peak of 14.4 per 1,000 employees in the three months to November 2020, and a historic low of 1.8 per 1,000 employees in the three-month period to May 2022.

For Wales, the data for the three-month period to July 2023 has been suppressed on disclosure grounds, but the figures available indicate the redundancy rate for Wales in the three-month period to June 2023, was 2.6 per 1,000 employees, a decrease from the 3.3 per 1,000 employees in the figure for the three months to the end of May 2023.<sup>28</sup> The redundancy rate in Wales in the three-month period to June 2023 was lower than both Scotland (3.8 per 1,000 employees), and England (3.9), but higher than Northern Ireland (1.2). These data should be treated with a degree of caution as it is based on relatively small sample sizes and has not been seasonally adjusted.

<sup>23</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

<sup>24</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

<sup>25</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted/current>

<sup>26</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

<sup>27</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

<sup>28</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

## An increase in the unemployment benefit claimant count in the UK but a decrease in Wales

During the year to August 2023, the UK unemployment-related benefit claimant count increased by 0.03m to 1.55m people.<sup>29</sup> In Wales 61,000 people claimed unemployment-related benefits (equal to 3.2% of the working age population, compared with a figure of 3.7% for the UK) in August 2023, a decrease of 2,800 claimants from the year to August 2022.<sup>30</sup>

The Welsh unitary authority areas with the highest proportion of working age population claiming unemployment-related benefits, according to the data for August 2023, were Newport (4.5%), Blaenau Gwent (4.1%), Cardiff (3.8%), Torfaen (3.7%), and Isle of Anglesey (3.6%), and those with the lowest proportions were Powys (2.2%), Monmouthshire (2.2%), Ceredigion (2.2%), Carmarthenshire (2.7%), and Gwynedd (2.7%).

## Economic inactivity increases in the UK but continues to decrease in Wales

In the period May to July 2023, there was a 0.1 percentage point increase in the UK economic inactivity rate on the quarter to 21.1%. The ONS Labour Market Overview, UK: August 2023<sup>31</sup> indicated that the increase in economic inactivity in the latest three-month period was mainly driven by people aged 16 to 24 years. Those inactive because they are looking after family or home decreased to a record low, while people inactive because of long-term sickness increased to a record high. The economic inactivity rate

in Wales decreased 1.2 percentage points on the quarter to 23.2% in May to July 2023.<sup>32</sup>

There is no recent update in the quarterly experimental GDP estimates for Wales beyond those reported in the Economic Intelligence Wales annual report 2022/23,<sup>33</sup> and relating to 2022Q3. However, the short-term output indicators provide a more recent picture of activity in production, construction and market services sectors of the economy.

<sup>29</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental>

<sup>30</sup> <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Unemployment/Claimant-Count/claimantcount-by-welshlocalareas-variable-month>

<sup>31</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/september2023>

<sup>32</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

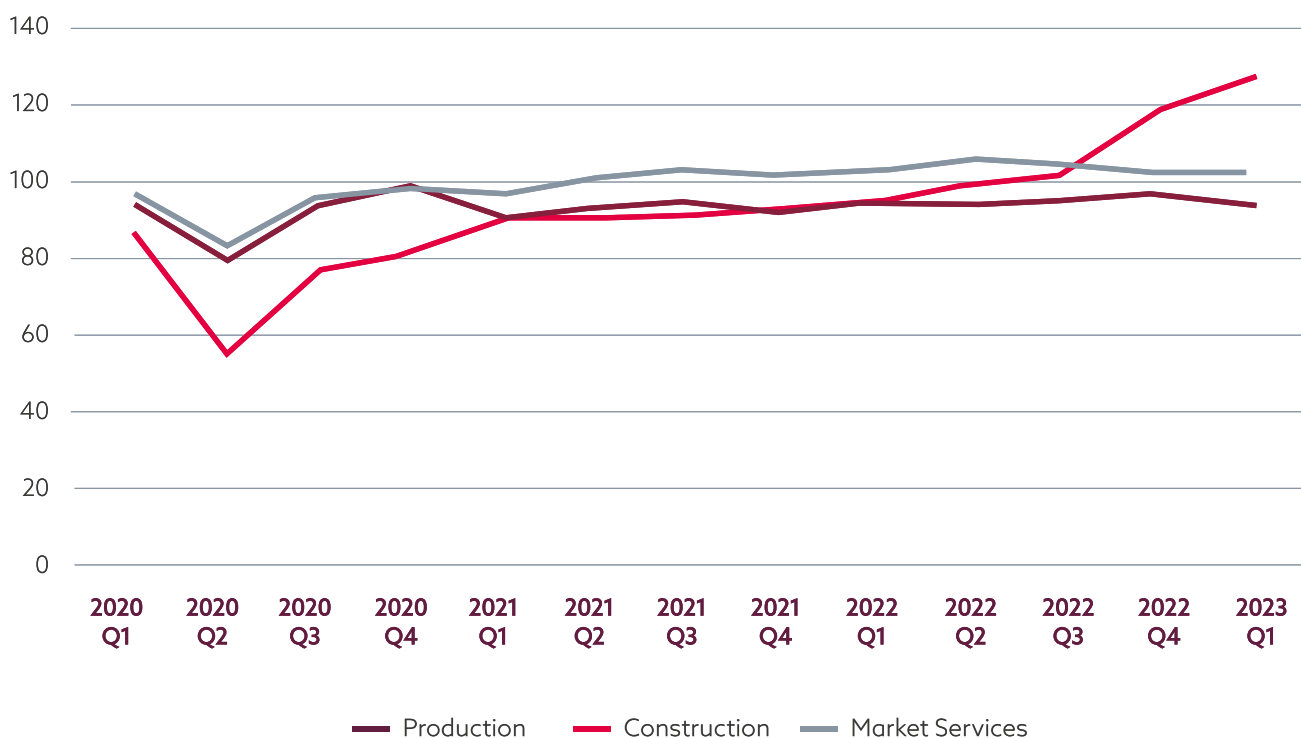
<sup>33</sup> <https://developmentbank.wales/annual-report-september-2023>

## Growth in Welsh construction industry output in 2022Q4 and 2023Q1

Figure 1 reveals the trend in Welsh production, construction, and market service output indices from 2020Q1 to 2023Q1. Indices of production and market services have remained relatively stable for about 8 consecutive quarters to 2023Q1. While the market services index has

been slightly above the pre-pandemic year of 2019, the production index has not recovered to 2019 levels, and with the index declining in 2023Q1. By contrast, the construction index has recorded strong growth for the most recent two quarters shown in Figure 1.

**Figure 1.**  
**Welsh output indices: trend 2020Q1 - 2023Q1 (2019=100)**



**Source:** Stats Wales, [Welsh Indices of Production and Construction \(2019=100\) by section and year](#) and [Index of Market Services \(2019=100\) by year and area](#)

The growth of the construction index in Wales is in line with the survey from the BVA-BDRC SME Finance Monitor for 2023Q2, which

reports that an estimated 74% of UK SMEs in the construction sector reported being in a 'good' mood, the highest across all sectors.<sup>34</sup>

<sup>34</sup> <https://www.bva-bdrc.com/wp-content/uploads/2023/09/SMEFM-Q2-2023-Chart-pack-FINAL-all-slides.pdf>

## The value of goods exported from Wales increased in the year to 2023Q2

The ONS note that a degree of caution should also be applied when interpreting data on trade. Data are typically published in current or nominal prices which means they have not been adjusted to remove the effects of inflation. For the period to 2023Q2 the trade in goods data for the UK regions show that there had been an increase in the value of exports from all UK countries in the year to June 2023 compared with the previous twelve months.<sup>35</sup> The value of goods exported from Wales increased by 11.1% to £20.4 billion over the year to June 2023 (compared with an increase of 12.6% in Scotland, 12.4% in England, and 19.6% in Northern Ireland).

Several Welsh sectors experienced a relatively high growth rate in the value of their exports over the year to June 2023.<sup>36</sup> Mineral fuels total exports increased to £4.1bn in the year to 2023Q2, from £3.9bn in the previous twelve months, an increase of 6.8%. Machinery and Transport exports increased to £8.2bn in the year to June 2023, from £6.9bn in the previous twelve months, an increase of 18.9%.

The total exporter count in Wales in 2023Q2 was 3,148 representing a fall of 2.6% from the

figure in 2022Q2 (using the Whole Number Method<sup>37</sup>). This compares to a drop of 2.3% for the UK as a whole in the same time period.<sup>38</sup> Trade volume data published by HM Revenue & Customs for the year to 2023Q2 showed that a net mass of 8.5 billion kilograms were exported from Wales, a decrease of 8.9% from the previous twelve months.<sup>39</sup>

The value of goods imported also grew in all UK countries in the year to June 2023 compared with the previous twelve months. In Wales the value of imported goods increased by 13.9% to £23.5 billion over this period (compared to increases of 12.2% in Scotland, 9.7% in England, and 10.5% in Northern Ireland).

The total importer count in Wales in 2023 Q2 was 9,055, an increase of 15.3% from the figure in 2022 Q2. In the UK as a whole the total importer count decreased by 0.4% over the same period.<sup>40</sup> Trade volume data published by HM Revenue & Customs, for the year to 2023Q2, showed that a net mass of 17.7 billion kilograms were imported into Wales, a decrease of 15.3% from the previous year to the end of 2022Q2.<sup>41</sup>

## Growth in gross value added per hour worked in Wales

Between 2004 and 2021 gross value added (GVA) per hour worked in Wales increased by 52.1%.<sup>42</sup> This was the third highest increase of the twelve UK countries and English regions,

behind Northern Ireland (59%) and Scotland (55%). The comparative figure for the UK as a whole, in the same time period for this key measure of labour productivity, was 50.1%.

<sup>35</sup> <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-second-quarter-2023>

<sup>36</sup> <https://www.gov.uk/government/statistical-data-sets/uk-regional-trade-in-goods-statistics-second-quarter-2023-accompanying-tables>

<sup>37</sup> "Whole number method": A business counts as 1 in each region they have employees.

<sup>38</sup> <https://www.gov.uk/government/statistical-data-sets/uk-regional-trade-in-goods-statistics-second-quarter-2023-accompanying-tables>

<sup>39</sup> <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

<sup>40</sup> <https://www.gov.uk/government/statistical-data-sets/uk-regional-trade-in-goods-statistics-first-quarter-2023-accompanying-tables>

<sup>41</sup> <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

<sup>42</sup> <https://www.gov.wales/welsh-economy-numbers-interactive-dashboard>

Although Wales was closing the gap with the UK average, the disparity persisted in the

figures for GVA per hour worked in 2021 (at £38.33 for the UK and £32.19 for Wales).

## UK economy forecasts

A comparison of independent forecasts received between the 1st and the 18th of September 2023 were published in the September 2023 HM Treasury Forecasts for the UK Economy.<sup>43</sup> The average forecast for UK GDP growth in 2023 was 0.4%, an improvement from the 0.3% projected in the August 2023 publication. The average forecast for GDP growth in 2024 was downgraded in September to 0.6% compared with the 0.7% forecast made in August.

In their Summer UK Economic Outlook<sup>44</sup>, published in August 2023, the National Institute of Economic and Social Research (NIESR) indicated that they continued to expect the UK economy to avoid recession in 2023, but that the outlook for growth remained muted. The report noted real personal disposable income, consumption, and GDP, all remain lower than their pre-Covid peaks, and monetary conditions have been tightened by hard-hitting policy

rate increases to address high and persistent inflation. Consequently, the NIESR forecast UK GDP growth of 0.4% in 2023, and 0.3% in 2024. Appendix 2 of this report shows a summary of selected GDP forecasts for the UK for 2023.

The NIESR Summer Economic Outlook noted that the Welsh economy had “suffered severely” from the pandemic, followed by the cost-of-living crisis, and was facing sluggish employment and output growth. The report revised downwards the NIESR projected employment level for the region, but indicated there were some grounds for optimism with manufacturing orders increasing (albeit constrained by a lack of skilled labour and access to finance for investment); investment opportunities presented by the creation of two freeports; and opportunities resulting from the Welsh Government 2021 Net Zero Wales programme.

## Quality issues relating to labour market data for Wales

To conclude this section, it is worth noting that recent labour market data for Wales, collected via the Labour Force Survey (LFS) has some quality issues. These issues are the result of reductions in the sample size due to challenges in maintaining response rates. LFS data is used to inform headline indicators such as unemployment and economic inactivity (see earlier in this section). The Welsh Government’s Chief Statistician’s Digital and Data Blog,<sup>45</sup>

posted in mid-September 2023, notes that “ONS are in the process of developing the Transformed Labour Force Survey (TLFS), which aims to improve response rates and quality of estimates....” The first figures from the TLFS are due to be published in the spring of 2024. Until then figures from the LFS remain volatile for Wales and should be used with caution. Data users advised to take account of information from a variety of sources.

<sup>43</sup> <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-september-2023>

<sup>44</sup> <https://www.niesr.ac.uk/wp-content/uploads/2023/08/JC737-NIESR-Outlook-Summer-2023-UK-v10-AC.pdf?ver=0ADNZdrTPhaHhGBka6Jf>

<sup>45</sup> <https://digitalanddata.blog.gov.wales/2023/09/12/chief-statisticians-update-understanding-the-labour-market-in-wales/>

- Following some recovery in 2023Q1, the UK small business confidence index decreased in 2023Q2.
- The number of business births and deaths in the UK and Wales decreased in 2023Q2.
- Welsh businesses continue to rank energy prices and falling demand as major concerns.

The Size Analysis of Active Business in Wales reported that there were an estimated of 252,100 active SMEs with 719,800 employees in 2022.<sup>46</sup> The three largest sectors based on the number of enterprises were wholesale,

retail, transport, hotel, food & communication sector; the financial and business services sector; and the construction sector, accounting for 62.5% of all enterprises active in Wales in 2022 and 62.0% of total employment.

### Small business confidence decreased in 2023Q2

The UK Small Business Index (SBI)<sup>47</sup> from the Federation of Small Businesses (FSB) dropped sharply from -2.8 in 2023Q1 to -14.2 points in 2023Q2 after a strong recovery in the opening quarter of 2023<sup>48</sup>. However, this is higher than in 2022Q2, when the index plummeted to -24.7 points after Russia's invasion of Ukraine. Figure 2

reveals the trend of the UK SBI between 2022Q2 and 2023Q2. The SBI 2023Q2 report suggests around 40% of responding UK SMEs reported that revenues had fallen during Q2, by contrast, only one in three reported an increase. All UK regions had a negative index in 2023Q2<sup>49</sup>.

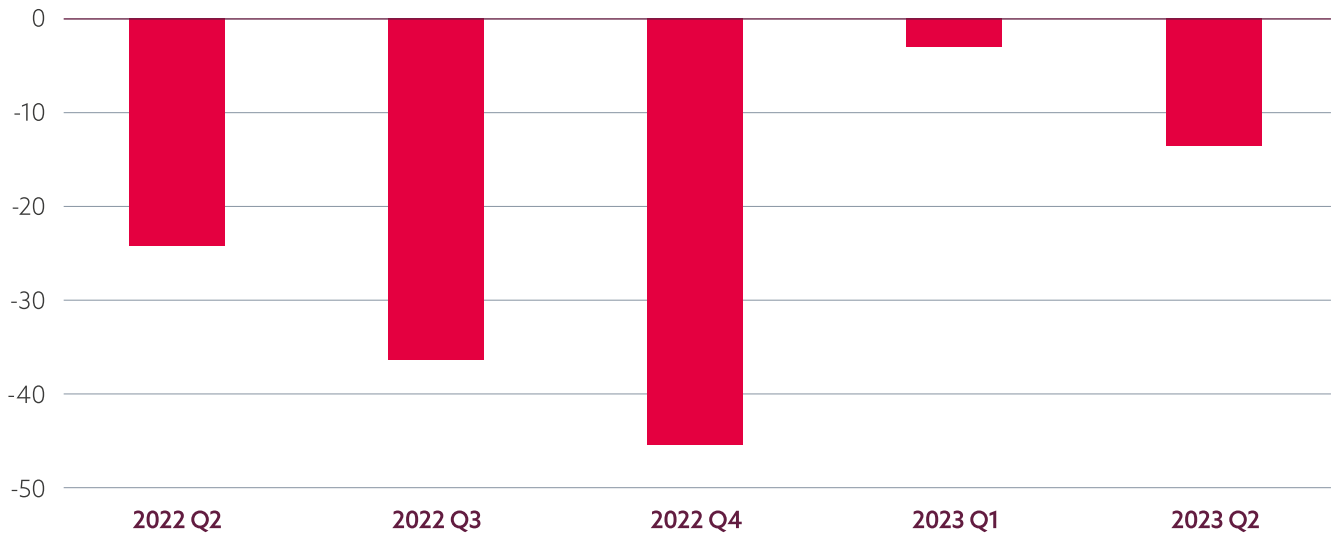
<sup>46</sup> <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/enterprises-by-sizeband-area-year>

<sup>47</sup> "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the weighting +2, slightly improved +1, approximately the same 0, slightly worse -1, and much worse -2; the Small Business Index is derived from the sum of these factors" (FSB, 2020).

<sup>48</sup> <https://www.fsb.org.uk/static/abba0985-def0-46d9-90c6546260819f26/SBI-Q2-2023-V3.pdf>

<sup>49</sup> Analysis for Northern Ireland and Wales is excluded due to insufficient sample size in the survey. Furthermore, results for the East Midlands, East of England and North West should be interpreted with care due to low sample size.

**Figure 2.**  
UK Small business confidence index, 2022Q2-2023Q2



Source: FSB Voice of Small Business Index, quarter 2, 2023.

There were substantial differences in business confidence across sectors in 2023Q2. The business confidence index in the accommodation and food services sector experienced a decline of 18.1 points, reaching -35.8 points. The wholesale and retail index also saw a notable decrease in confidence of 12.6 points, reaching -37.8 points in 2023Q2. Business confidence in manufacturing businesses remained relatively stable at -14.5 points, similar to the previous quarter. In contrast, professional, scientific, and technical activities was the only major sector with a positive index reading of 7.8 points, though it decreased by 7.1 points compared to the first quarter of 2023.

The domestic economy remained the top concern for most small businesses, with 61% mentioning it as a barrier to growth in the 2023Q2 report. Consumer demand increased as a concern from 30% in 2023Q1 to 36%

in 2023Q2. However, utility and fuel costs decreased as concerns, dropping from 33% to 25% and 13% to 8% between the two quarters. Additionally, 49% of small businesses experienced higher labour costs, and 20% saw an increase in financing costs, up from 45% and 15% in 2023Q1, respectively.

However, the more recent monthly Lloyds Bank Business Barometer<sup>50</sup> reported some better news for August. This report showed that UK business confidence increased to 41%<sup>51</sup> during August 2023. This was a rise of 10 points compared to July 2023 and represents the highest level of confidence since February 2022. During August 2023 confidence increased across all sectors except Manufacturing. For businesses surveyed in Wales, confidence increased to 36% in August 2023, up by 9 points compared with July 2023.

<sup>50</sup> <https://www.lloydsbank.com/business/resource-centre/insight/business-barometer.html>

<sup>51</sup> A net balance, calculated by deducting the percentage of negative responses from the percentage of positive responses.



The SME Finance Monitor 2023Q2 reported an estimated 30% of all responding UK SMEs (excluding Starts) reported growth in the past 12 months, an improvement compared with 18% of UK SMEs for 2021 as a whole, but still below the level in 2019 (37%). The percentage reporting growth in the past 12 months was 51% for medium-sized businesses with 50-240 employees. Some 48% of businesses employing 10 to 49 people reported growth in

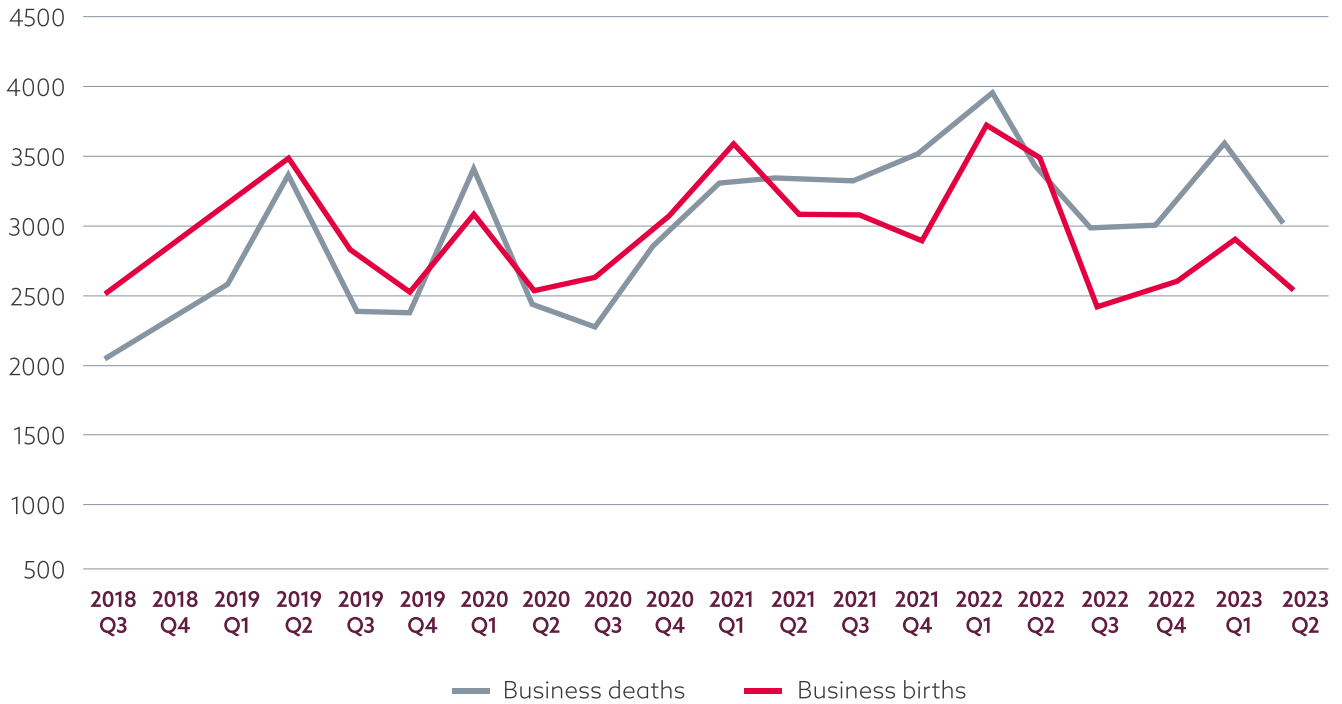
the past 12 months, compared with 38% for those SMEs employing 1 to 9 employees, and 26% for those with no employees. Increasing costs and economic climate were still the key barriers to SMEs, reported by 39% and 31% of respondents respectively in the 2023Q2 report. These barriers were particularly severe for the Hospitality sector. Furthermore, some 58% of international SMEs reported increasing costs as the main barriers.

### Decreases in both business births and deaths in UK in 2023Q2

ONS reported a decrease in both business births and deaths in the UK in 2023Q2. After increases in 2023Q1, the number of business births decreased from 79,080 in 2023Q1 to 77,095 in Q2. However, this figure is still higher than those in 2022Q3 and Q4. UK business deaths declined significantly from 106,490 in 2023Q1 to 84,150 in Q2. Wales saw a similar trend to the UK in both

business births and deaths. Figure 3 reveals the variation of quarterly business births and deaths in Wales over the past 20 quarters. Since 2021Q2, the number of business deaths in Wales have exceeded business births in all but one quarter (2022Q2). In 2023Q2 there were 2,580 business births and 3,015 business deaths in Wales.

**Figure 3.**  
Quarterly business births and deaths in Wales 2018 Q3 - 2023 Q3



Source: [ONS Business demography, quarterly experimental statistics, UK](#)

### Welsh businesses ranked energy prices and falling demand as their major concerns

The ONS Business Impacts and Conditions Survey<sup>52</sup> (BICS) for 21 August 2023 to 3 September 2023 (Wave 90)<sup>53</sup> reported a decrease in the percentage of businesses that permanently ceased trading to 1.3% (the figure was 3.0% between 16 May and 11 June 2023). Some 5.9% of UK respondents experienced global supply chain disruption. Similarly, 5.6%

of Welsh respondents reported supply chain disruption in July 2023. While UK respondents reported falling demand and inflation as the major concerns of their business in September, Welsh respondents ranked energy prices and falling demand as their main concerns, reported by 15.8% and 14.9% of businesses respectively.

<sup>52</sup> <https://www.ons.gov.uk/file?uri=/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy/bicswave90/bicswave902final.xlsx>

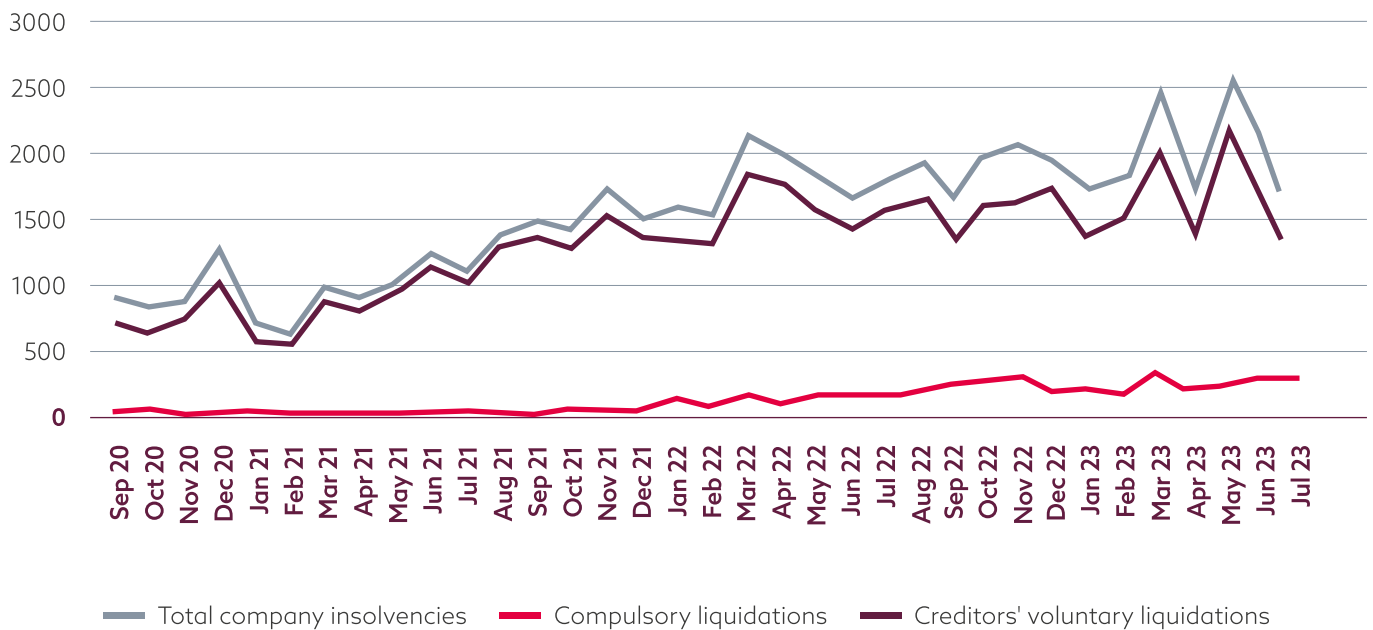
<sup>53</sup> <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

### Trends in business insolvencies

Figure 4 reveals the trend of registered company insolvencies in England and Wales from September 2020 to May 2023.<sup>54</sup> The number of insolvencies saw a sharp decrease from 2,551 in May 2023 to 1,727 in July 2023. The decrease

was mainly driven by creditors' voluntary liquidations, which decreased from 2,176 in May 2023 to 1,336 in July 2023. By contrast, the number of compulsory liquidations increased from 194 to 248 during the same period.

**Figure 4.**  
Monthly registered company insolvencies in England and Wales Sept 2020- July 2023



Source: [Monthly Insolvency Statistics](#)

County Court judgments for debt can partially predict future insolvencies. Compared with 2022Q2, county court judgements were up 20% to 277,000 in 2023Q2,<sup>55</sup> with 92% of these being default judgements. Meanwhile, county court

claims increased by 12% to 419,000 compared with 2022Q2. Specifically, the money claims, the claim seeking to recover a debt from a person or a business, increased by 17%.

<sup>54</sup> <https://www.gov.uk/government/collections/monthly-insolvency-statistics>

<sup>55</sup> <https://www.gov.uk/government/statistics/civil-justice-statistics-quarterly-april-to-june-2023/civil-justice-statistics-quarterly-april-to-june-2023>

- A higher percentage of SMEs used external finance in 2023Q2.
- UK equity investment increased in 2023Q2.
- The average interest rate on SME loans increased to 7.55% in July 2023.

## Relatively stable supply and demand for business lending in 2023Q2

The Bank of England publishes a quarterly Credit Conditions Survey of banks and building society lenders to analyse the trends and developments in credit conditions. In the 2023Q2 survey<sup>56</sup>, lenders were asked to report their perceived changes in both supply and demand sides of credit conditions for the three months to May 2023 (Q2) relative to Q1 and the expected change in 2023Q3. Lenders reported that the availability of credit (defined as willingness and ability to supply credit, keeping demand constant) to the whole business sector did not change in 2023Q2, but they reported a slight increase in supply to small businesses in 2023Q2. Lenders also reported that demand for corporate lending

varied across different sizes of companies: it slightly increased for small businesses, remained unchanged for medium-sized businesses, and slightly decreased for large firms. Both the demand and the supply for business lending were expected to be unchanged in 2023Q3.

Lenders also reported that default rates on business lending remained stable across businesses of all sizes during 2023Q2, but that default rates would rise for small enterprises, while staying constant for medium and large businesses in 2023Q3. Losses in the event of default also showed no significant change for businesses of all sizes in 2023Q2.

## The proportion of SMEs using external finance increased in 2023Q2

The SME Finance Monitor 2023Q2 included new questions about pandemic funding to understand the on-going use of pandemic funding and the sources of external finance. The results suggest that 30% of SMEs had received pandemic funding up until the first half of 2023. The proportion of SMEs that had used any external finance (including pandemic funding) in the previous three months increased from

34% in 2022Q4 to 44% in 2023Q2. The increase is mainly driven by non-pandemic funding, including overdraft, credit card, and leasing. Some 36% of SMEs had injected personal funds in 2023Q2, which is the same as the figure in 2023Q1. However, the percentage of SMEs that felt they had to inject personal funds increased from 22% in 2023Q1 to 24% in 2023Q2.

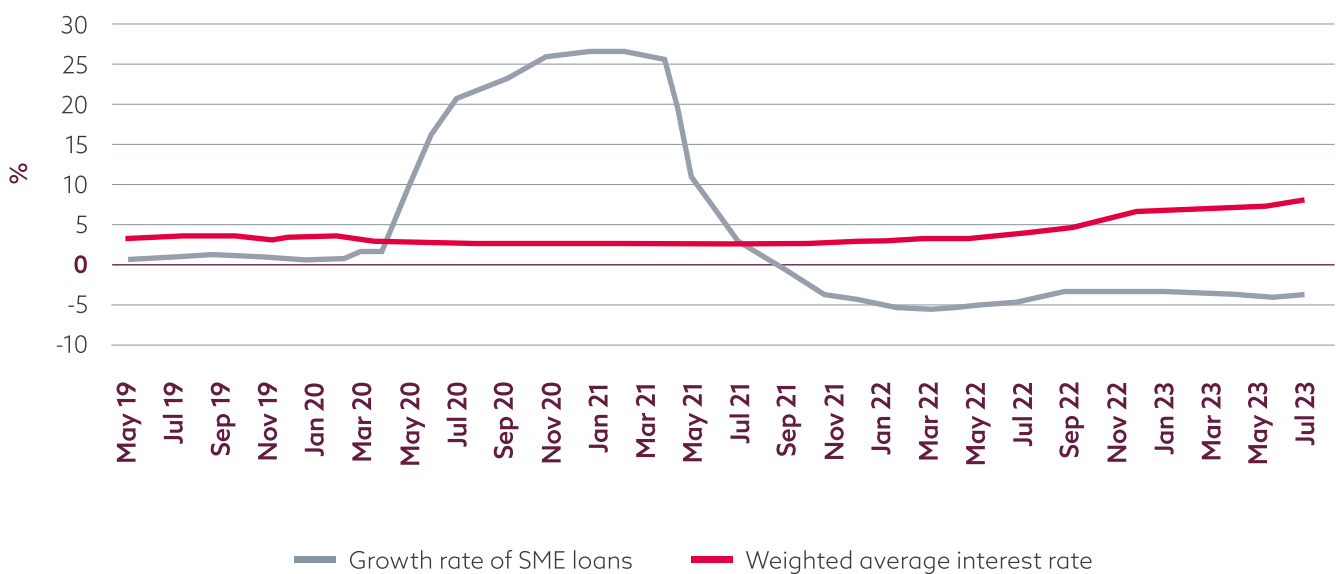
<sup>56</sup> <https://www.bankofengland.co.uk/credit-conditions-survey/2023/2023-q2>

## Interest rates increase steadily

Figure 5 depicts the monthly growth rate of SME loans and the weighted interest rate based on Bank of England data. The growth rate of SME loans<sup>57</sup> was -4.2% in July 2023, marking a decrease in SME loans for 23 months since September 2021. Meanwhile, the average interest rate on SME loans increased for 22 consecutive months, from 2.65% in October 2021

to 7.55% in July 2023, a record-high for the past decade.<sup>58</sup> Following the increase in the Bank rate to 5.25% in August, there is likely to be some further upward movement in the average interest rate on SME loans, but with some expectation that this could steady following the decision by the Bank of England to keep the interest rate unchanged in September 2023.

**Figure 5.**  
Growth rate of SME loans and interest rates on SME loans May 2019 - July 2023, %



Source: [Bank of England](#)

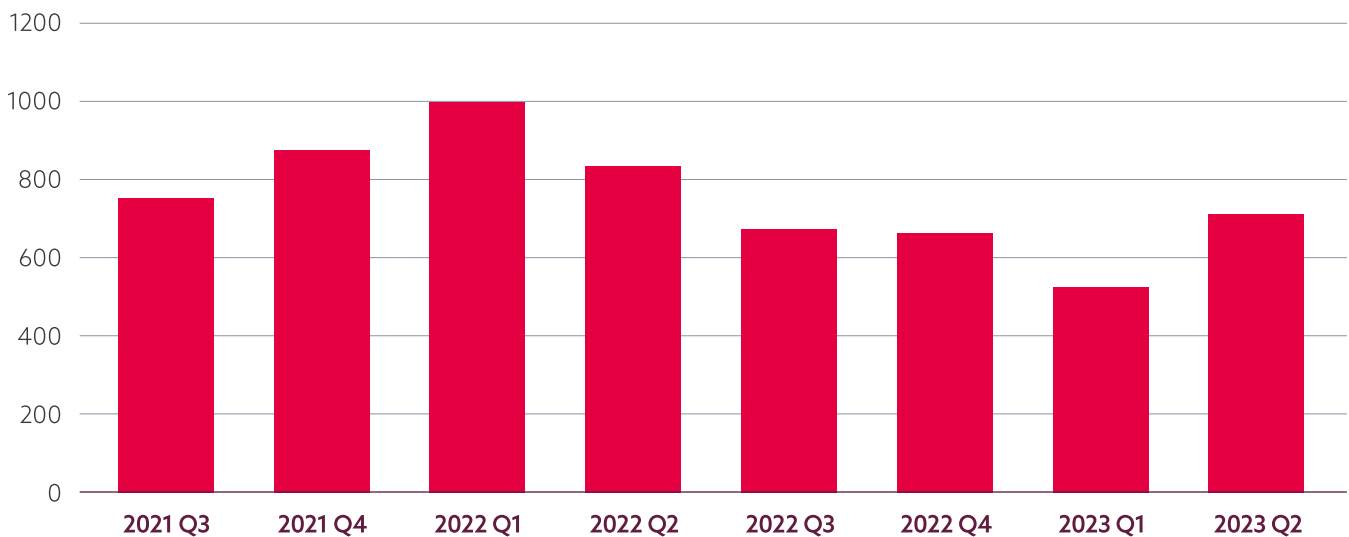
Crunchbase dataset documents both equity and debt investment in the UK. Figure 6 shows the trend of equity investment in the UK between 2021Q3 and 2023Q2.

Crunchbase data shows a strong recovery in equity investment in the UK in 2023Q2 from 560 deals in 2023Q1 to 731 in 2023Q2.

<sup>57</sup> This is the monthly 12-month growth rate of monetary financial institutions' sterling and all foreign currency loans to small and medium sized enterprises (in percent) seasonally adjusted. Bank of England series RPMZO8M.

<sup>58</sup> Monthly average of UK resident banks' sterling weighted average interest rate - other loans, floating rate linked to Bank Rate (<3mth reset) to small and medium sized enterprises (in percent) not seasonally adjusted. Bank of England series CFMZ6HQ.

**Figure 6.**  
*Number of financial investments in the UK according to Crunchbase*



Source: Crunchbase.

The most recent UK finance postcode lending data<sup>59</sup> was reported in the Economic Intelligence Wales annual report 2022/23. This showed a substantial decrease in lending to Welsh SMEs in 2022. The lending volume decreased from £20.04bn in 2021 to £8.88bn in 2022. The Swansea postcode area received the most SME lending in 2022, followed by Cardiff and Llandudno.

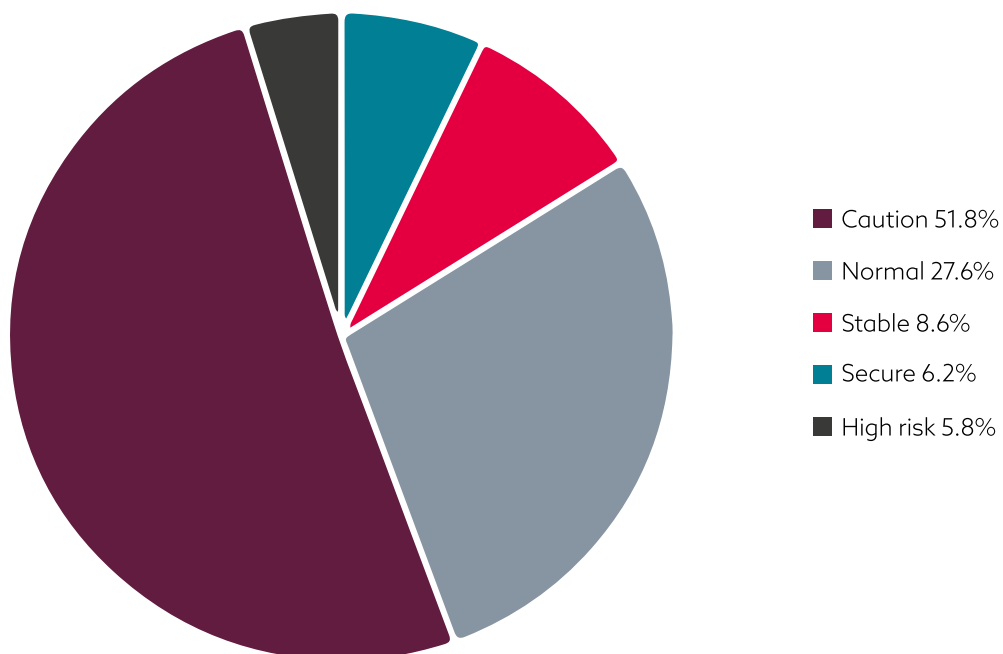
The Bureau van Dijk FAME database of Companies House data was searched in September 2023 to seek evidence of the proportion of Welsh SMEs that fell into different credit risk categories. The September 2023 search yielded 90,176 SMEs with a known credit rating (an increase in firms with a credit

rating of 1% since the June 2023 search). It is important to recognise that this source may not identify Wales' smallest firms. Figure 7 reveals that of this total, 5.8% of SMEs in Wales were estimated to be in the highest risk credit rating category, up from around 4.7% in September 2022. The Caution category comprised over 46,700 SMEs or 51.8% of the total, again up from 50.9% in September 2022. These proportions are quite slow to change and with updates to credit rating coming at different intervals according to when new data is uploaded on the FAME database. However, the continued rise in businesses in the High-risk category is of interest with an expectation of some further increase in business defaults during 2023.

<sup>59</sup> [https://www.ukfinance.org.uk/system/files/2023-07/GB\\_SME\\_Lending\\_%28loans\\_%26\\_overdrafts%29.xlsx](https://www.ukfinance.org.uk/system/files/2023-07/GB_SME_Lending_%28loans_%26_overdrafts%29.xlsx)

**Figure 7.**

*Percentages of Welsh SMEs in different credit risk categories, September 2023.*



Source: FAME Database

- In 2023/24 Q1 the Development Bank of Wales completed 114 investments, with a total value of almost £27m. These investments were associated with almost 700 new and safeguarded jobs.
- Almost 67% of investments by value in 2023/24 Q1 were loans and equity investments, with the majority of these relating to loans. The remaining 33% of investments were linked to property development.
- Around 48% of the total value of investments were made to firms located in south east Wales during 2023/24 Q1. Businesses in mid and south west Wales, and those in north Wales received approximately 29% and 23% of investment funds respectively.
- The construction sector secured the highest value of Development Bank of Wales investments in 2023/24 Q1, accounting for over £9.4m of investment (35% of the total).
- The highest number of jobs created or safeguarded by Development Bank investments in 2023/24 Q1 were in manufacturing, and wholesale and retail trade sectors.

## **In the first quarter of the 2023/24 financial year, the Development Bank of Wales made 114 investments, which created and safeguarded almost 700 jobs**

Figure 8 shows a peak in the number of investments made in the final quarter of 2022/23, and a drop in the first quarter of 2023/24; a pattern that has been observed in previous years. This suggests that businesses are less likely to seek finance in the opening months of the financial year. In addition, challenging economic conditions continued to impact businesses in Wales during this period, with high levels of uncertainty

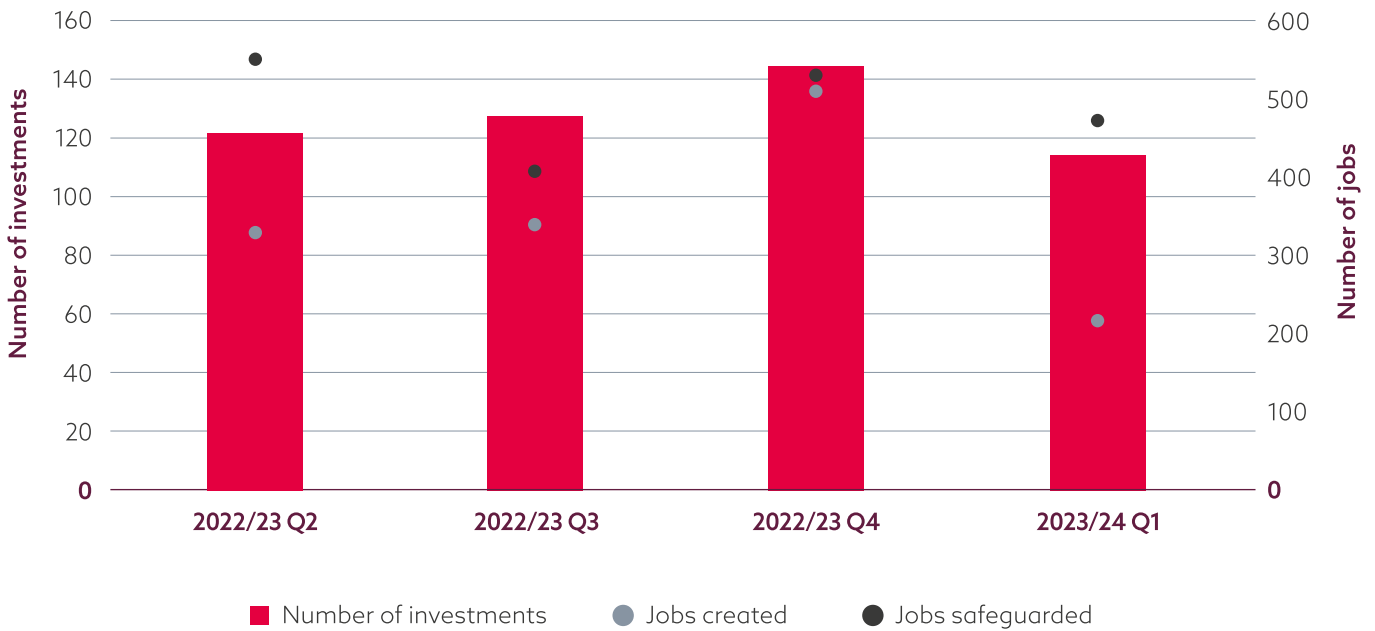
about inflation and increasing interest rates possibly resulting in a reluctance to seek finance early in the financial year.

The number of jobs created by Development Bank investments in 2023/24 Q1 (almost 210 jobs) is lower than in the previous quarters as shown in Figure 8. However, over 470 jobs were safeguarded in 2023/24 Q1, which is comparable to previous quarters.



**Figure 8.**

*Investments and jobs created and safeguarded, 2022/23 Q2 – 2023/24 Q1*



## The total value of investments made during 2023/24Q1 was almost £27m

The total value of investments in the first quarter of the 2023/24 financial year was also below those of the previous quarters. New debt and equity investment in 2023/24Q1 was almost £18m, with a further almost £9m

of property development investment. Equity investment has fallen from a high of £10.7m in 2022/23Q3, to £7.2m in 2022/23Q4, and to £2.3m in the first quarter of 2023/24.

**Figure 9.**  
*New Investment by investment type, £m, 2022/23 Q2 - 2023/24 Q1*

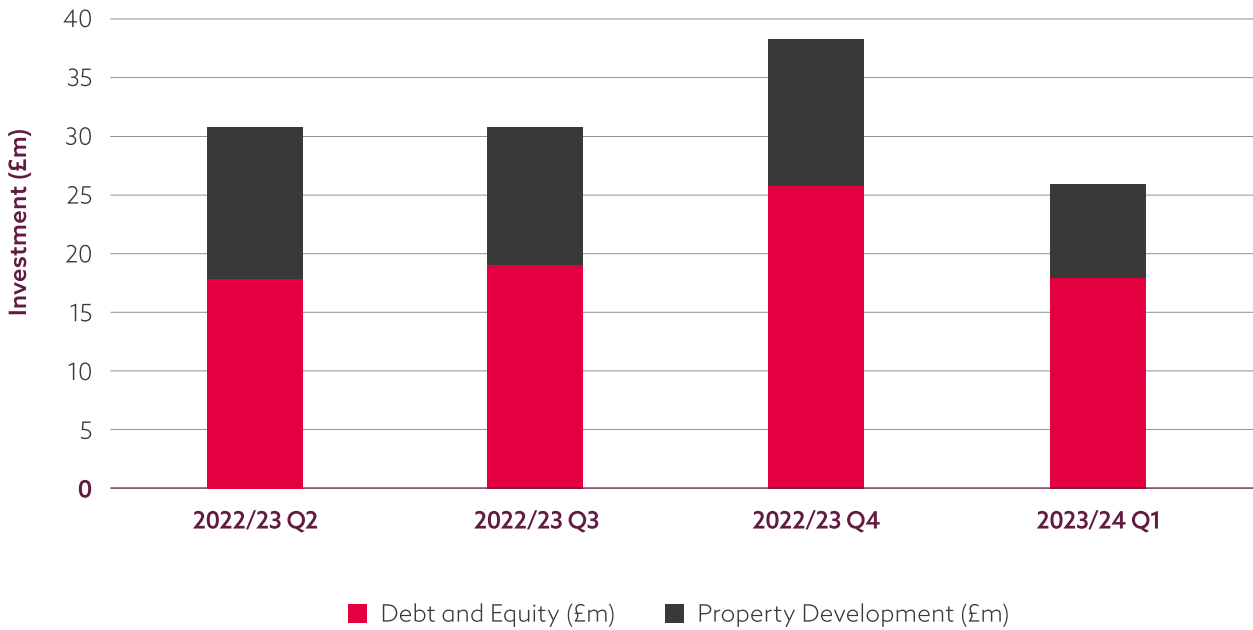


Figure 10 shows that businesses in south east Wales received almost half of total investment funds during 2023/24 Q1, with firms located in mid and south west Wales receiving around 29% of funds, and businesses in north Wales

accounting for almost 23% of investment funds. The south east Wales region has the largest concentration of businesses in Wales, accounting for around 46% of the business population.

## The average value of investment in 2023/24 Q1 was just over £233,000

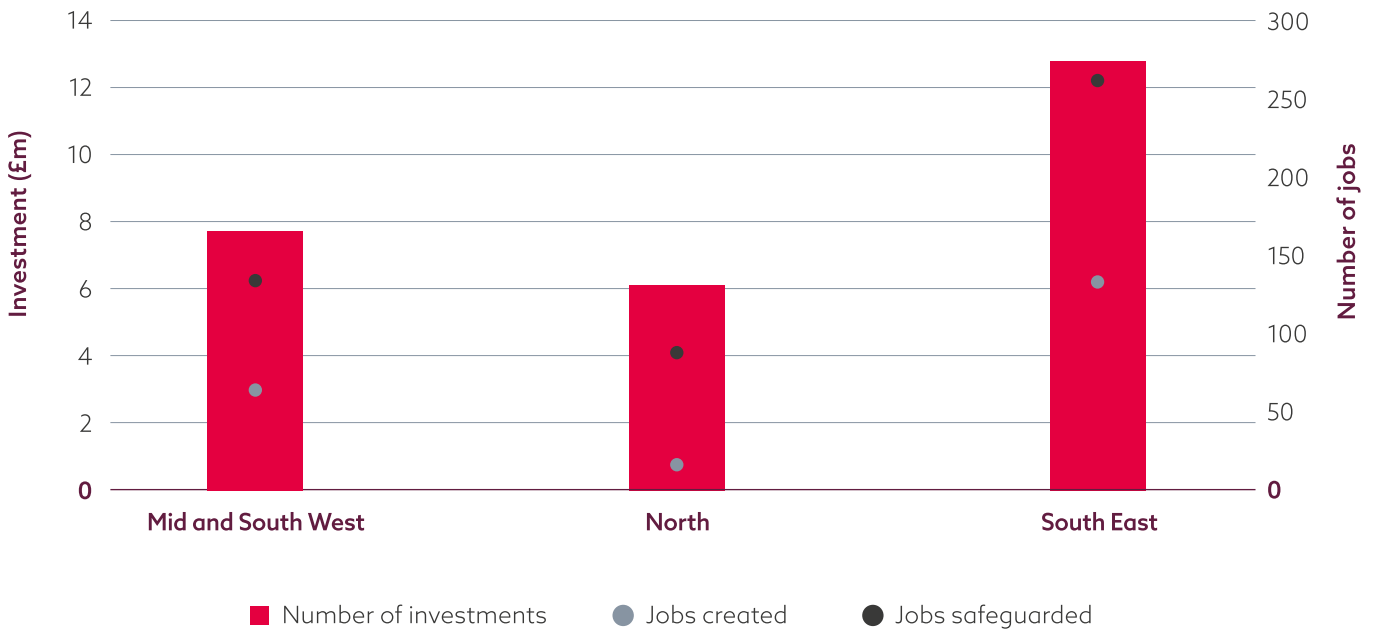
Whilst the number of investments and the total value of investment was highest in the south east Wales region, the average investment value was lowest in this region, at just under £200,000 per transaction. This compares with over £337,000 of funding per investment in north Wales and just over £240,000 per

investment in mid and south west Wales.

Almost 390 new or safeguarded jobs were supported by Development Bank investments in south east Wales, with a further almost 200 jobs in mid and south west Wales, and over 100 jobs in north Wales.

**Figure 10.**

*Investment values, £m, and jobs created and safeguarded by location 2023/24 Q1*

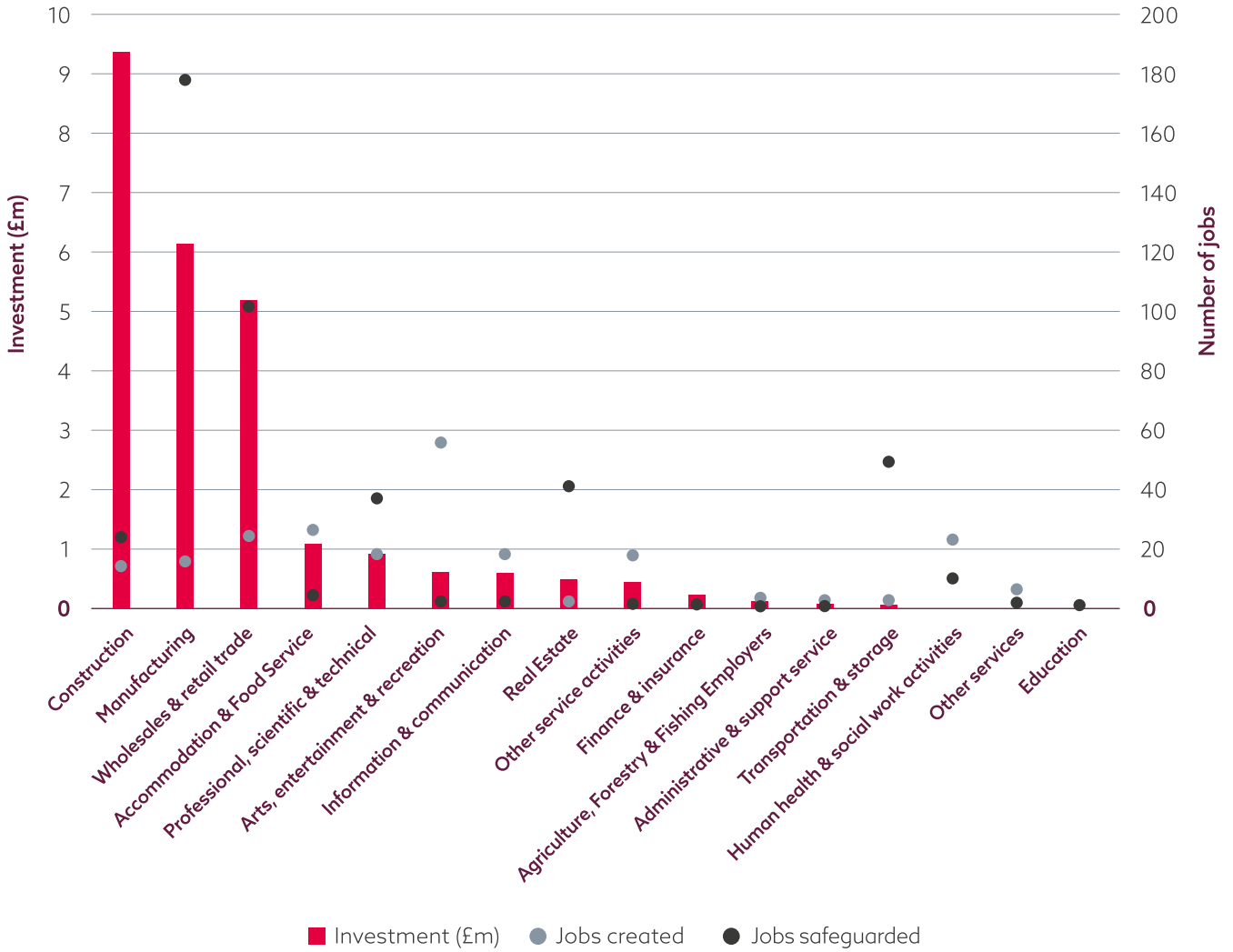


**The construction, manufacturing, and wholesale and retail trade sectors together accounted for almost 80% of the total investment value in 2023/4 Q1**

Figure 11 shows that businesses supported by the Development Bank in the manufacturing sector are linked to the highest number of new and safeguarded jobs (189 jobs), followed by

wholesale and retail trade (126 jobs). Of the total of almost 210 new jobs created during 2023/24 Q1, almost a quarter of these were in the arts, recreation and entertainment sector.

**Figure 11.**  
Investment and associated employment by industry 2023/24 Q1



Once again, and similar to the conclusions from the Economic Intelligence Wales annual report, the review in this quarterly report is quite mixed in terms of the current strength of the Welsh SME sector and prospects for growth. It remains difficult to achieve a consistent narrative on prospects. At one level Welsh SMEs remain affected by those factors which have hindered prospects for economic growth for the whole of 2023, and with these factors comprising high inflation, energy costs and plain economic uncertainty. Small business confidence according to organisations such as the FSB remains quite precarious, and there has been a worrying trend in UK business insolvencies, yielding calls from business organisations for more help from the UK Government to overcome current conditions. However, August and September also saw a series of surveys showing that businesses were becoming more confident despite higher interest rates. For example, the Business Barometer from Lloyds Bank revealed that confidence among UK and Welsh firms was climbing in August 2023.

Adding to the mixed picture on confidence is the global trading environment. The war in Ukraine shows little sign of ending. However, another factor affecting confidence globally is growing concerns about the trajectory of the Chinese economy. While the series of Economic Intelligence Wales reports earlier this year were able to highlight the more positive news resulting from the ending of Covid-19 lockdowns in China, news in the second half of 2023 is far less encouraging. Chinese economic growth is falling (a poor growth performance in Q2), there is also the spectre of price deflation, export growth is slowing and there is an emerging crisis in Chinese

housing and commercial property markets with some large developers defaulting on payments. All things are of course relative. The recent round of GDP forecasts for China (see for example OECD<sup>60</sup>) still puts growth in 2023 at over 5%, falling to 4.6% in 2024. However, the recent concerns are also coupled with more strained trading relationships (most recently heightened in the case of semiconductors), and the ticking demography time bomb which is expected to see tighter labour market conditions and changes in patterns of intra-regional migration in China.

In the UK the focus has continued around controlling inflation. In this respect it is unlikely that small firms in Wales or other parts of the UK will be expecting much from the November Autumn Statement, and with the Chancellor already on record as saying that the primary focus is halving headline inflation rates by the end of the year. The announcement concerning the future of Tata steel activity and employment have added to local economic worries.

Within this mixed picture the ability of the Development Bank to continue to invest in activity that is creating employment is very welcome. Also encouraging has been the news that Wales saw one of largest increases in GVA per hour worked between 2004 and 2021, but with a large gap with the UK average persistent. This noted much of the material relating to the demand and supply side for finance in Wales tells us something about the factors that might be constraining productivity growth and with Wales still towards the bottom of the UK regional table in terms of GVA per head.<sup>61</sup>

<sup>57</sup> <https://www.oecd-ilibrary.org/sites/1f628002-en/index.html?itemId=/content/publication/1f628002-en#chapter-d1e50-37ed2a2086>

<sup>58</sup> See Welsh Economy in Numbers [Welsh economy in numbers: interactive dashboard | GOV.WALES](#)

Some figures reported in the quarterly reports change quite rapidly. For the reader, this appendix provides web links to the statistics that are frequently updated such that updates can be gained prior to the next quarterly report.

**UK GDP updates:**

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/latest>

**UK labour market analysis:**

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes>

**UK regional labour market data:**

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/nationallabourmarketsummarybyregions01>

## Appendix 2:

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Selected GDP forecasts for the UK economy 2023 (% annual growth)

Forecasters	Date of forecast	GDP % annual growth
IMF	July 2023	0.4
OECD	September 2023	0.3
NIESR	August 2023	0.4
<b>Other non-city forecasters</b>		
CBI	September 2023	0.4
Experian Economics	September 2023	0.2
Oxford Economics	September 2023	0.5
<b>City forecasters</b>		
Capital Economics	September 2023	0.2
JP Morgan	September 2023	0.6
KPMG	September 2023	0.4

**Source:** For IMF, OECD, and NIESR see Section 2 of this report. For 'Other non-city forecasters' and 'City forecasters' see: <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-september-2023>

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**developmentbank.wales**

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