

# Economic Intelligence Wales

## *Quarterly report*

**February 2020**

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# Executive Summary

The timing of 2019/20 QR2 coincides with the further Brexit deadline at the end of January 2020, this coming in the aftermath of the December 2019 General Election. The increase of UK GDP in the third quarter of 2019 (0.3%) is of significance to the broader economic context. In addition, UK business investment fell by 0.4% between 2019Q1 and 2019Q2. The latest available quarterly (experimental) GDP estimates for Wales for 2019Q1 reveal a decline of 0.5%, compared to the increase of 0.4% in the quarter to 2018Q4.

New and revised business size analysis data presents a very different picture of SME activity during 2018. Provisional 2018 Stats Wales figures had indicated a 20% annual decline of Welsh micro business turnover in the year to 2018. **However, revised figures revealed a small annual turnover change of -0.4%.**

Based on the revised 2018 Stats Wales data, medium-sized businesses recorded the greatest annual increases in enterprise count, employment and turnover in the year to 2018.

## **The QR reports contrasting figures for Welsh SMEs.**

**Survey results indicate that a higher percentage of SMEs were planning to grow in the 12 months after 2019Q2 in the UK (54%) than in Wales (52%).** In both the UK and Wales, the percentage of SMEs planning to grow had declined since 2018. Moreover, **Wales, among UK regions, had the third lowest share of UK companies considered to be high-growth firms (4%),** with only 3% of the UK scale-ups located in Wales in 2018. **However, Wales had the highest business birth rate among the UK countries and devolved administrations for the second consecutive year (2017 and 2018).**

## **Welsh small business confidence index falls**

Welsh SME confidence fell into negative territory in the third quarter of 2019 (-15.5), after relatively high levels of confidence between 2018Q1 and 2019Q2.

**The SME Finance Monitor for 2019Q2 shows that the proportion of Welsh SMEs using any type of external finance was 48%, which is higher than the UK average (42%).** The *SME Finance Monitor* also shows that 43% of Welsh SMEs used core finance tools (compared to 39% in the UK) in 2019Q2, while only 14% used other forms of finance (16% in the UK). The rate of Welsh SMEs using external finance may further increase following more recent improvements in SME credit risk ratings in Wales.

**The proportion of Welsh SMEs estimated to be at High credit risk declined between August and December 2019 from 6.7% to 4.1%, while the number of SMEs classified as Secure increased from 2.9% to 5.5% over the same period.** Caution is however needed in drawing any firm conclusions from this data, as this improvement is currently based on one sample month of information on credit risk ratings.

## **Development Bank of Wales**

**In the second quarter of the financial year 2019/20, 178 firms received investment, up from 162 in the first quarter.** The value of new investments made by the Development Bank of Wales during **the second quarter of the financial year 2019/20 summed to nearly £22 million,** down from £25 million in the first quarter.

The new decade sees some reduction in economic and political uncertainty as a result of the General Election outcome. With Brexit firmly established in the UK government's political agenda, understanding how the Welsh economy and its SMEs are affected by this, and other factors, remains crucial.

This is the second EIW quarterly report (QR) for the 2019/20 financial year. Sections 2 and 3 of this report provide data and commentary on the UK and Welsh macroeconomic context within which Welsh SMEs operate, together with analysis of factors relating to the demand for, and supply and cost of SME finance.

**These sections have the objectives of understanding:**

- Macro-economic factors shaping the demand for SME finance in Wales.
- Trends in SME growth, start-ups, and business survival prospects in Wales.
- The supply of finance to SMEs in Wales.
- The amounts and types of lending/ investment into SMEs in Wales.

Section 4 summarises the activities of the Development Bank of Wales in the context of factors affecting the demand for, and supply of, finance to SMEs in Wales. In summary, the QR will identify:

- The use of Development Bank funds in financing Welsh SMEs, and what type of enterprises and industries are being supported.
- The geographical distribution of SME investment around Wales.

The final section draws conclusions from the overall analysis.

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.

## 2.1 UK and regional economic prospects

UK business prospects in recent years and months have been significantly affected by the ongoing economic, political and financial uncertainty stemming from Brexit negotiations. The transition to a new future relationship

between the UK and the European Union will impact the economic conditions that affect business growth, as well as the demand for, and supply of, different types of finance.

### The UK economy expanded during the third quarter of 2019.

Latest data shows that UK GDP increased by 0.3% in 2019Q3. This follows a decline of 0.2% in 2019Q2. However, UK GDP recorded monthly declines during both August and September, and increased by just by 1% compared with the same quarter a year ago (2018Q3). This was the slowest rate of quarter-on-year-growth since 2010Q1. While the previous quarterly UK GDP decline was caused by a fall in UK production and construction sector output, the GDP 'recovery' in 2019Q3 is a result of small increases in UK construction and services sector output. UK service sector GDP increased by 0.4% in 2019Q3, following a 0.1% rise in 2019Q2. However the prospects for the sector are not encouraging, with some business surveys reporting that confidence

about UK service sector growth in August declined for the third consecutive month to the lowest level for more than three years.<sup>1</sup> Production sector output remained flat during 2019Q3, following the decline in 2019Q2.

ONS have recently published new regional annual GDP growth rate data for Wales.<sup>2</sup> This indicated that the annual increase in GDP in Wales was 3.3% in 2018, with GDP rising from £72.5 billion in 2017 to £74.9 billion in 2018. The latest available quarterly (experimental) GDP estimates for Wales (for 2019Q1) reveal a decline of 0.5%, compared to the increase of 0.4% in the quarter to 2018Q4. The Services sector experienced the greatest quarterly decline (-0.6%), with production sector GDP increasing by 0.2%.

<sup>1</sup> See <https://www.markiteconomics.com/Public/Home/PressRelease/bec4ba3ae8ac45008c46a8bc6b71a07d>

<sup>2</sup> See <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/regionaleconomicactivitybygrossdomesticproductuk/1998to2018>

### Falling UK business investment.

Confirming the predictions made by the Confederation of British Industry for 2019, UK business investment fell by 0.4% between 2019Q1 and 2019Q2, following a 0.8% rise during 2019Q1. The 2019Q1 increase was the first quarterly growth of business investment since 2017Q4. These figures become more significant when consideration is given to recent UK trends, with annual growth rates of business investment of around 5% in the pre-referendum period. The Bank of England's November Inflation 2019 report<sup>3</sup> showed that Brexit uncertainty strongly affects business investment, consumption patterns and household spending.

The October agreement between the UK Government and the EU Commission for a Brexit deal brought some optimism in the UK

economy. The Pound to Euro exchange rate was at a one-year high in December 2019. The Bank of England decided to keep interest rates unchanged in November 2019 (at 0.75%) but stated that these could fall in the case of further weak economic growth, in order to keep inflation at 2%. The Bank of England cut its forecast for UK GDP growth to 1.2% (from 1.3%) for 2020.

#### Welsh small business confidence index falls

The Small Firm Business Index for Wales shows that business confidence fell by 33.8. Business confidence declined from 18.3 in 2019Q2 (the highest among the UK regions) to -15.5 in 2019Q3 (the second lowest in the UK).

### Small firms in Wales record the steepest fall in business confidence across the UK regions.

UK small business confidence remained negative for a fifth consecutive quarter, which is unprecedented in the history of the *Small Business Index*.<sup>4</sup> The *UK Small Business Index* was -1.7 in 2018Q3, -9.9 in 2018Q4, -5 in 2019Q1, -8.8 in 2019Q2, and -8.1 in 2019Q3.<sup>5</sup> Within the Index, the net balance of UK exporters reporting growth in the value of exports fell by 1.3% to -7.1% in the quarter to 2019Q3, which is a five year low. Wales had previously performed much better, being the outlier region in terms of the UK SME Confidence Index between 2018Q1 to 2019Q2. However Welsh SME confidence fell into negative territory in the third quarter of

2019, with the steepest decline in confidence of all UK regions between 2019Q2 and 2019Q3.

The labour market in Wales remains relatively robust. The unemployment rate was 3.8% for the period July-September 2019, remaining unchanged on the previous quarter. Wales' unemployment rate was equal to the UK average, and was the fifth lowest rate among the UK regions. UK wage growth slowed in October 2019 to 3.6%, compared with 3.8% in September 2019. Overall wages in Wales continue to lag the UK average, with median weekly earnings of full-time employees in Wales at £535 in 2019, compared with a UK average of £585.

<sup>3</sup> See <https://www.bankofengland.co.uk/monetary-policy-report/2019/november-2019>

<sup>4</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 following weightings: +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, 2019).

<sup>5</sup> FSB (2019). FSB voice of small business index, Quarter 3 2019. Available at: [https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sbi-q3-2019-final.pdf?sfvrsn=9deef121\\_0](https://www.fsb.org.uk/docs/default-source/fsb-org-uk/fsb-sbi-q3-2019-final.pdf?sfvrsn=9deef121_0)

### Revisions to Welsh micro business data show a decline in turnover of 0.4% in 2018.

EIW 2018/19 QR3 highlighted an annual drop in Wales' micro-businesses turnover in the year to 2018 (-20%), based on provisional data derived from Stats Wales.<sup>6</sup> Stats Wales have since revised the micro firm figures for 2018.<sup>7</sup> The change in micro business turnover based on the revised data was just -0.4% between 2017 and 2018, varying significantly from the provisional data estimates. In this context it is also important to understand the differences in coverage between different data sources.

The Stats Wales data discussed above includes businesses registered in Wales, and those registered elsewhere but with operations in Wales. The data from the Department for Business, Energy and Industrial Strategy (BEIS) does not include firms registered outside Wales, but which have business operations in the region. Differences between data sources are evident when comparing Stats Wales figures with BEIS data, either for registered or unregistered firms (particularly for micro companies), as shown in the Appendix to this report (see also EIW 2019<sup>8</sup>). The Stats Wales data provides a more complete coverage of the business base in Wales and is therefore considered to be more appropriate for the analysis of firm activity within Wales. However the BEIS methodology/firm coverage is consistent across the UK and is therefore more appropriate for comparisons of Wales with the rest of the UK.

Based on the revised Stats Wales data, medium-sized firms recorded the greatest annual increases in enterprise count, employment and turnover in the 2017-2018 period (Figure 1). Small and micro firms also increased their enterprise count, employment and turnover, with the exception of the small decline in micro businesses' turnover noted above.

#### Medium-sized business turnover increased for second successive year

Welsh medium-sized business turnover increased by almost 14%, from £14.2bn in 2017 to £16.2bn in 2018. This is higher than UK turnover growth for medium-sized firms over the same period (8%). The turnover of medium-sized firms in Wales increased by a further 3.4% in 2019 to £16.8bn (provisional data for 2019).

<sup>6</sup> Welsh Government data is published via the StatsWales platform.

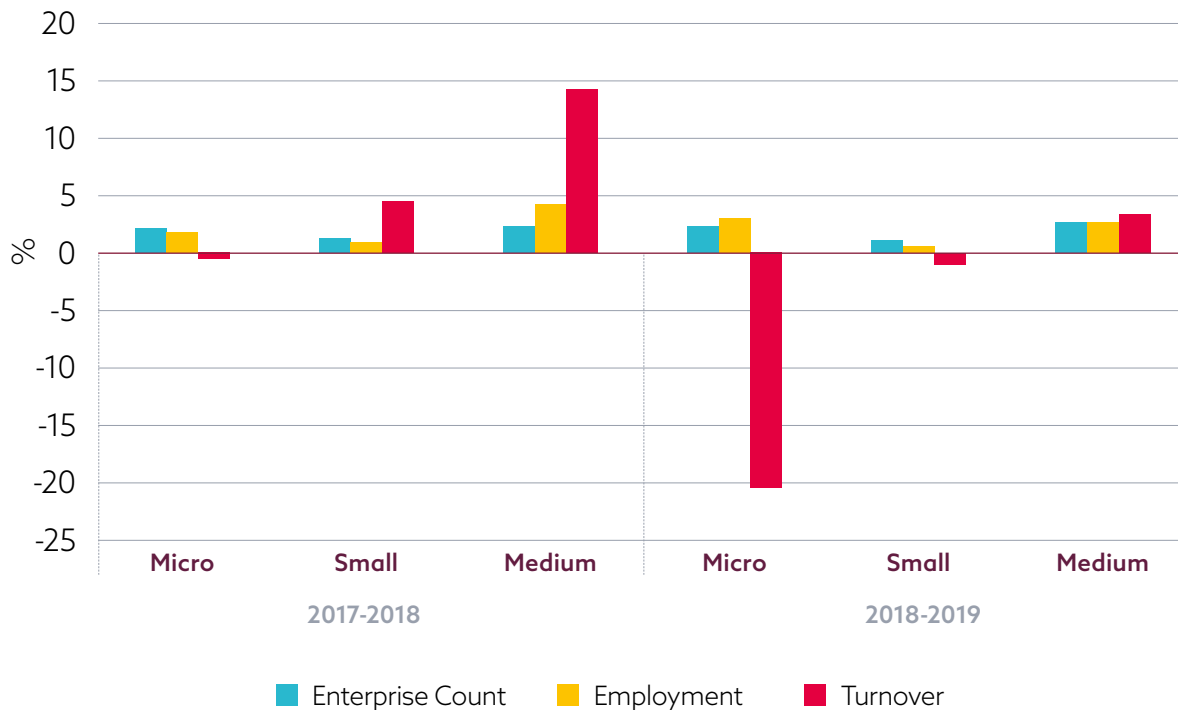
<sup>7</sup> The Source document here is <https://gov.wales/sites/default/files/statistics-and-research/2019-12/size-analysis-active-businesses-2019-503.pdf>

<sup>8</sup> EIW (2019) Medium-sized firms and Welsh business structure. Available at: <https://developmentbank.wales/sites/default/files/2019-11/EIW%20Quarterly%20Bespoke%20report%20English.pdf>

## 2.2 The SME picture in Wales: understanding factors shaping demand for finance

**Figure 1.**

*% Change in count, employment and turnover by size band (2017-2018 & 2018-2019)*



Source: [Stats Wales, Business structure in Wales by size-band and measure \(provisional data for 2019\)](#)

It is difficult to fully understand the trends in SME economic activity based on provisional data. Provisional Stats Wales data for 2019, shows that micro businesses' turnover fell by 20% during 2018-2019 (a similar change to that recorded by the provisional data for the previous year). The BEIS figures reveal an increase in turnover of micro firms by 1.2% (only registered companies) and 4.1%

(registered plus unregistered enterprises, see Appendix 1). Regarding other SME firm sizes shown in Figure 1, the number of medium-sized companies continue to grow at the fastest rate, and with their turnover increase falling from 14% between 2017 and 2018 (based on revised data) to 3.4% in the year to 2019 (provisional figures). Small business turnover declined by 0.9% in the year to 2019.



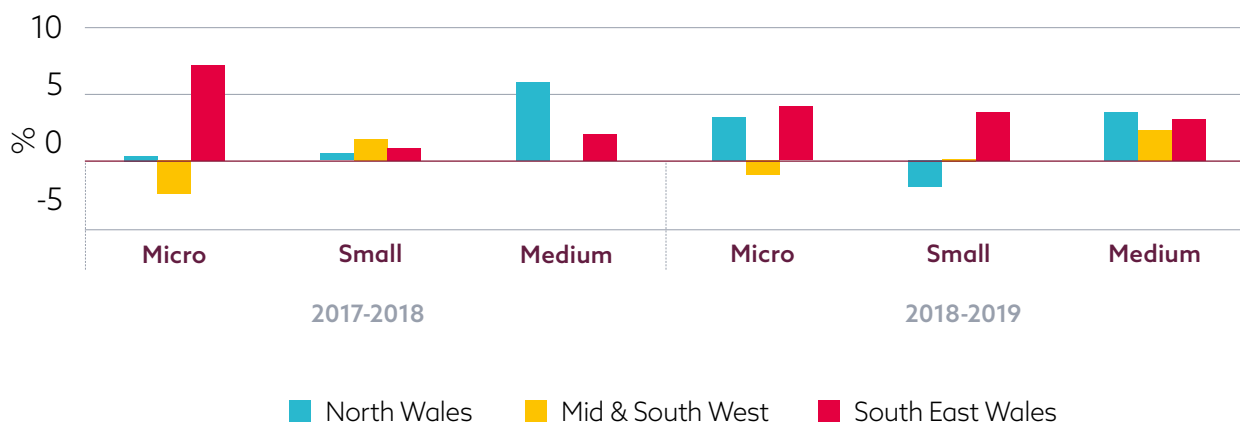
### South East Wales records the largest increases in the number of SMEs in the year to 2019.

The changes in numbers in each size-band are not evenly distributed across Wales. South East Wales recorded the highest percentage increases in micro and small companies in the year to 2019. Figure 2 shows that between 2017 and 2018, only the micro businesses in Mid & South West declined in terms of count. In 2018-

2019, the number of medium-sized companies increased in all the regions in Wales, with the highest growth in North Wales (3.7%). The highest percentage increase in numbers of firms was recorded in micro companies located in South East Wales (4.2%), with the number of small firms in North Wales falling by 1.8%.

**Figure 2.**

*SME count in Wales, % change by size band (2017-2018 & 2018-2019)*



Source: [Stats Wales, Enterprises by size-band, area and year \(provisional data for 2019\)](#)

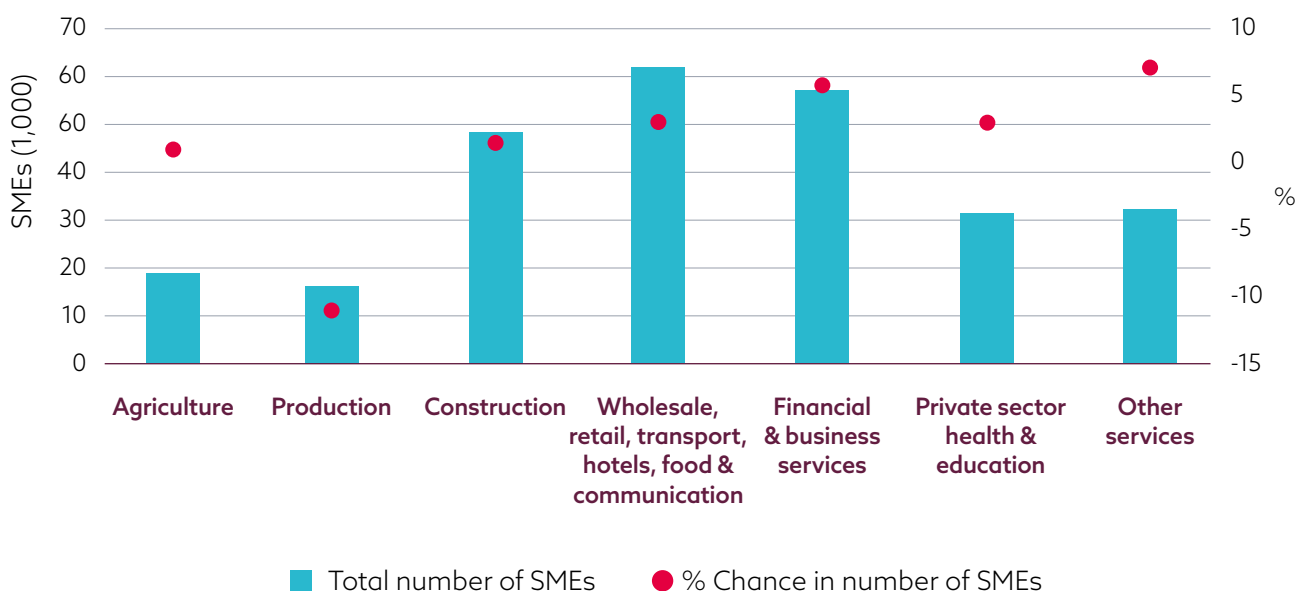
**The wholesale/retail trade sector had the highest count of SMEs in 2019, with the number of SMEs in production sectors declining between 2018 and 2019.**

Welsh SMEs are unevenly distributed across sectors of the economy. Figure 3 shows the sectoral distribution of Welsh SMEs in 2019 together with the change in count from 2018 to 2019. The broadly defined wholesale/retail trade, hotels and catering, and communication services sector had the highest SME count with more than 60,000 SMEs in Wales in 2019. In similarity to 2018, production sectors had the lowest SME count in Wales in 2019. However, of more significance is the annual decline of production sector SMEs (-11.5%) in the wider context of international trade uncertainty. This sector is more directly exposed to overseas export markets and Brexit-related risks.

**The number of Welsh SMEs in production sectors declined significantly during 2019**

SMEs in production sectors fell from 18,600 in 2018 to 16,455 in 2019, (a 11.5% decline). This fall is much greater than the decline in UK production SMEs in the year to 2019 (0.5%).

**Figure 3.**  
*Number of Welsh SMEs (2019) and % change during 2018-2019*



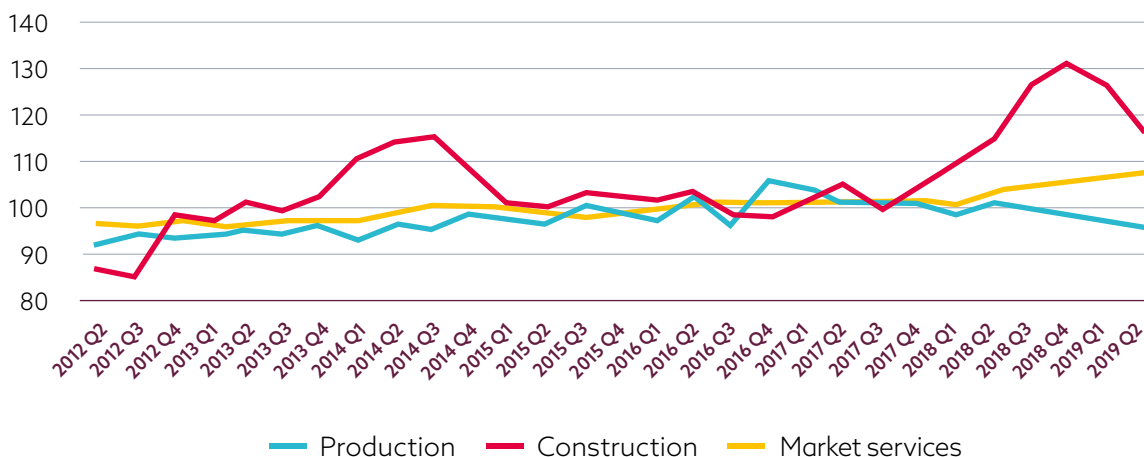
Source: [Stats Wales, Enterprises by industry \(SIC2007\), size-band and area \(provisional data for 2019\)](#)

### Output growth in the construction sector continues to fall.

Figure 4 shows the quarterly movement in the Welsh output indices of production, construction and market services, from 2012Q2 to 2019Q2. The index of construction sector output declined in the second quarter of 2019, following the fall in 2019Q1. This followed five consecutive quarters of steady increase (from 98.9 in 2017Q3 to 131.6 in 2018Q4). However, this is still well above (by 17%) its base year index value in 2016. Given the 2019Q3 increase in UK construction sector GDP, this sector's output in Wales will be closely monitored over the coming quarters.

The market services index in Wales continued to grow, following its steady rise in recent quarters, increasing from 100.6 in 2018Q1 to 106.7 in 2019Q2. The production index for Wales has declined, with a fall from 100.7 in 2018Q2 to 94.8 in 2019Q2. The production index has now been below its 2016 base year index level for three consecutive quarters. This trend links to the decline in UK production sector GDP in 2019Q2, and the annual fall in production SMEs in Wales. This trend is important for Welsh SMEs either directly, or through their supply linkages to larger production industry companies within or outside Wales.

**Figure 4.**  
Welsh output indices: trends 2012Q2 - 2019Q2 (2016 =100)



Source: [Stats Wales, Welsh Indices of Production and Construction \(2016=100\) by section and year and Index of Market Services \(2016=100\) by year and area](#)

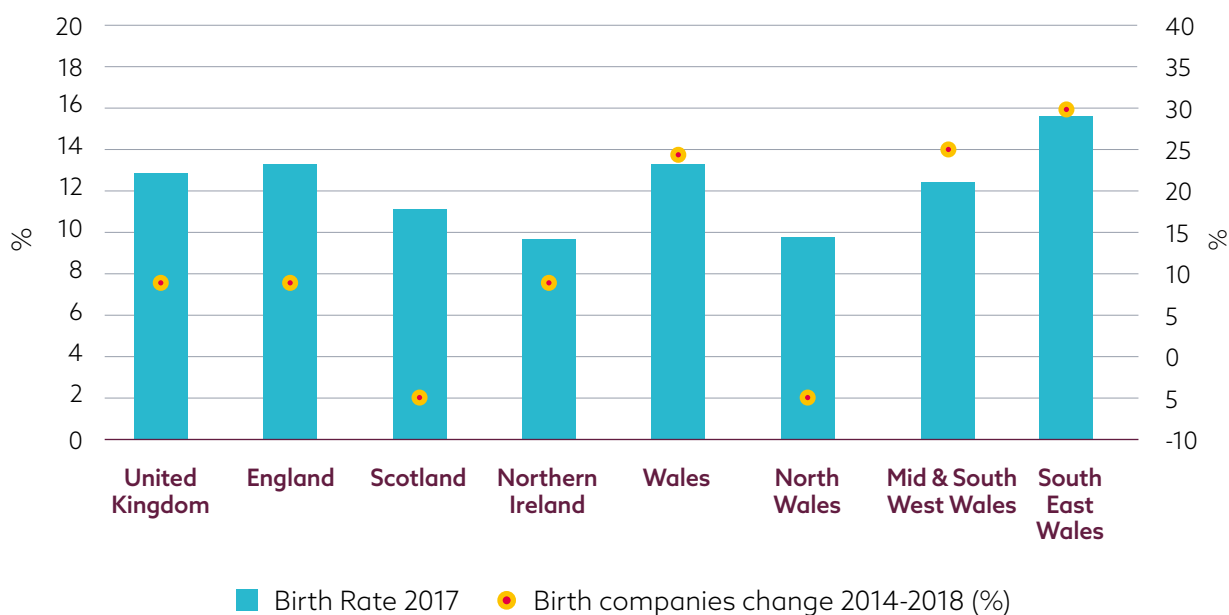
### Wales had the highest business birth rate across the UK countries for a second consecutive year.

Figure 5 examines business birth rates, and changes in the number of birth enterprises across the UK devolved administrations and the Welsh regions. Based on Stats Wales provisional figures, Wales recorded the highest birth rate in 2018 across the UK

countries and devolved administrations, at 13.3% of active businesses, with the UK birth rate at 12.9%. Wales had also the highest business birth rate in 2017, with 13.7% of active companies (UK average birth rate was 13.1%).

**Figure 5.**

*Business birth rate (2018, %) and change in number of birth companies (2014-2018, %)*



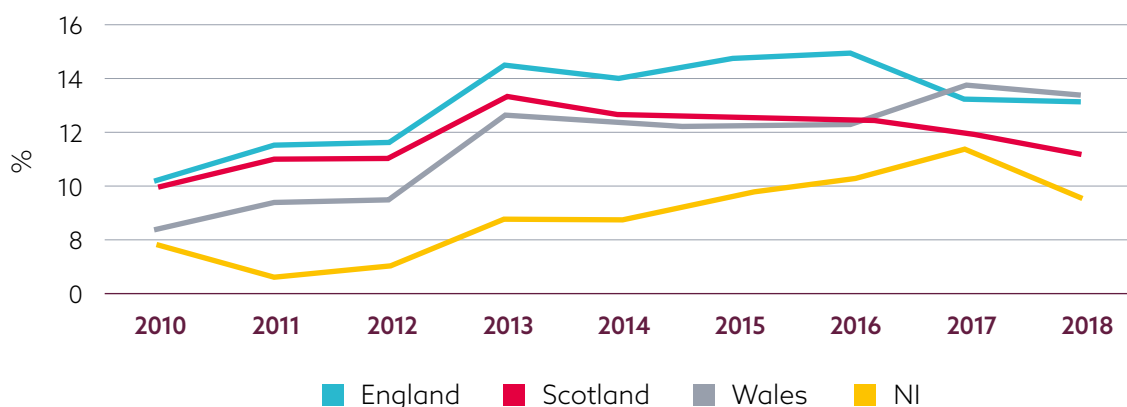
Source: [Stats Wales, Business births by area and year \(provisional data for 2018\)](#)

## 2.2 The SME picture in Wales: understanding factors shaping demand for finance

Figure 6 shows that the picture in 2017 and 2018 is very different to the period from 2010 to 2016, when Wales had the second lowest business birth rate of the UK countries (ranging from 8.3% to 12.6%), although it has been increasing. However, since 2017, Wales has recorded the highest rate among the UK devolved areas. Important in this context is that the UK has recently shown high rates of opportunity-

driven entrepreneurship.<sup>9</sup> Opportunity-driven entrepreneurship refers to people who, through business, sought to either earn more money or be more independent, as opposed to maintain income. This contrasts with necessity-driven entrepreneurship which refers to starting a business because there were no better options for work, rather than because the entrepreneur saw the start-up as an opportunity.

**Figure 6.**  
*Business birth rate (%), UK countries and devolved administrations*



Source: [Stats Wales, Business births by area and year \(provisional data for 2018\)](#)

Relatively small changes in the number of birth companies can influence the recorded business birth rates. Between 2014 and 2018, the number of birth companies<sup>10</sup> in Wales increased by around 3,000, to 14,045 firms. Within Wales, the South East Wales region recorded the highest business birth rate in 2018, much

above the two other Welsh regions. In South East Wales, there was a 30% increase in the number of birth companies between 2014 and 2018. This data raises some concerns about business dynamism in North Wales which has experienced a decline of -5.1% in the number of birth companies during the period 2014-2018.

<sup>9</sup> GEM (2019) 2018/2019 Global Report. Available at: <https://www.gemconsortium.org/>

<sup>10</sup> A birth company is defined as a business that is present in a specific year, but did not exist in the previous one or two years.

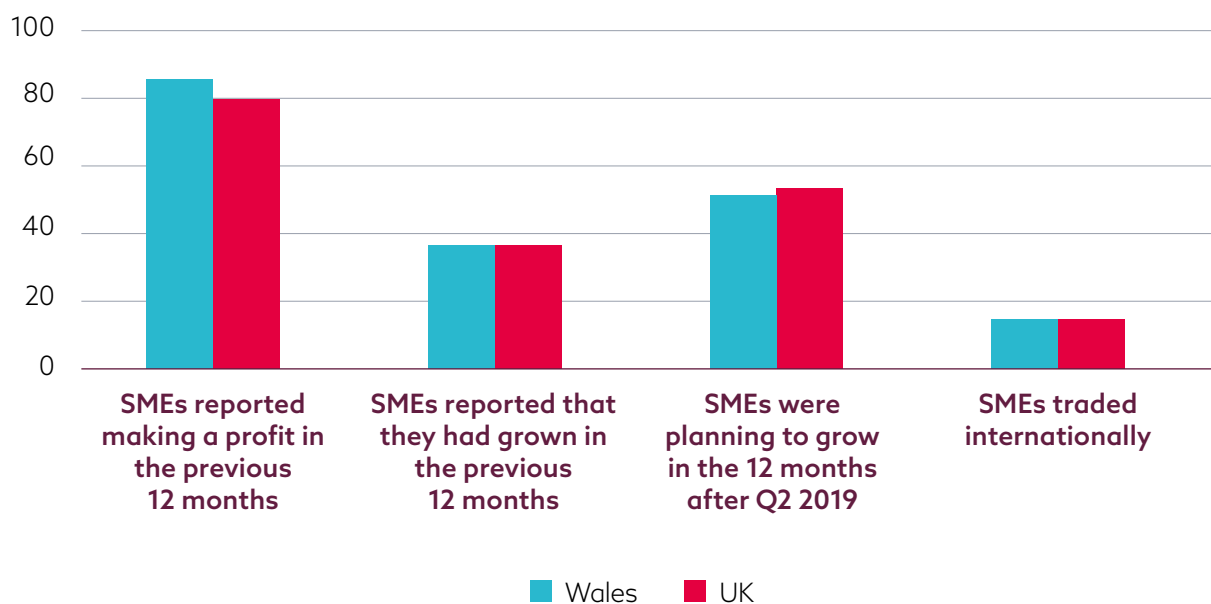
### Little change in the numbers of Welsh SMEs reporting growth in the first half of 2019 compared to 2018.

The *SME Finance Monitor* reported that 36% of Welsh SMEs had grown in the 12 months prior to 2019Q2, this is similar to the UK average (Figure 7). This figure is also similar to that reported in the *Longitudinal Small Business Survey 2018*. Wales recorded a higher proportion of SMEs making a profit in the previous 12 months than the UK average (86% compared with 80%).

Figure 7 also shows a higher percentage of SMEs were planning to grow in the 12 months after 2019Q2 in the UK (54%) than in Wales (52%). However in both Wales and the UK, these percentages had declined compared to the previous period relating to 2018, when they were 58% for the UK and 60% for Wales.

**Figure 7.**

*Performance issues for SMEs, UK and Wales, survey data for 2019Q2 (%)*



Source: Derived from *SME Finance Monitor*

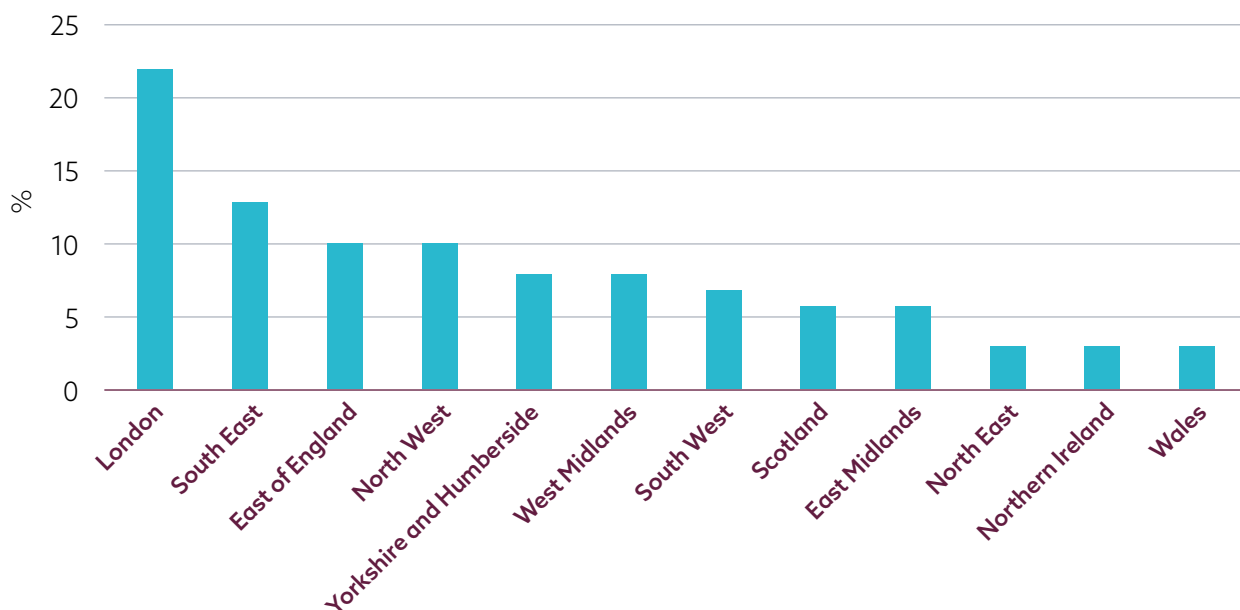
### Wales has the lowest share of UK scale-ups companies among the UK regions.

The stable growth rate and generally weak economic dynamism of Welsh SMEs is reflected in the number of scale-up companies in Wales. According to the Scaleup Institute, scale-ups are start-ups with revenue of below £0.5 million that grow to over £1 million in revenues

after 3 years. Using this definition, only 3% of UK scale-ups are located in Wales, the lowest amongst the UK regions, alongside Northern Ireland and North East. Additionally, Wales had the third lowest share of UK companies considered as high-growth (4%) in 2018.

**Figure 8.**

*Regional share of UK scale-ups (%)*



Source: The Scaleup Index<sup>11</sup>

<sup>11</sup> Beauhurst (2019). The Scaleup Index. Available at: <https://www.scaleupinstitute.org.uk/reports/the-scaleup-index-2019/>

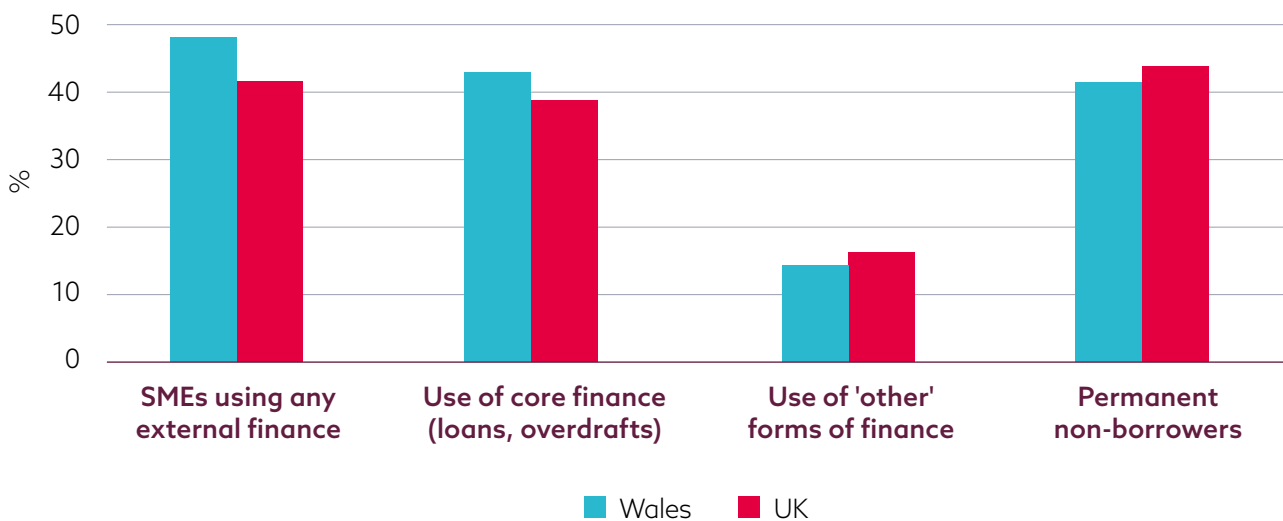
## The proportion of surveyed Welsh SMEs using any type of external finance continues to rise.

According to the *SME Finance Monitor for 2019Q2* (Figure 9), 48% of Welsh SMEs used external finance (any type), this is higher than the UK average (of 42%). This is also a higher rate from that reported in *SME Finance Monitor 2018* (44%) and 2017 (41%). The

findings relating to the use of external finance correspond with the figures for permanent non-borrowers, i.e. SMEs with no current or future appetite for finance. Wales has a lower rate of permanent non-borrowers than the UK average (42% compared with 44%).

**Figure 9.**

*External finance issues for SMEs, UK and Wales, survey data for 2019Q2, %*



Source: Derived from *SME Finance Monitor*

Welsh SMEs were more likely to use core finance (loans, overdrafts, credit cards) than 'other' forms of finance (mainly equity), confirming the low use of equity amongst SMEs in Wales and in the UK generally, as reported in

a previous EIW report<sup>12</sup>. The SME Monitor shows that 43% of Welsh SMEs used core finance tools in 2019Q2 (39% in the UK), while only 14% used other forms of finance (16% in the UK).

<sup>12</sup> EIW (2019) Equity Clusters in Wales. Available at: [https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report\\_final.pdf](https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf)



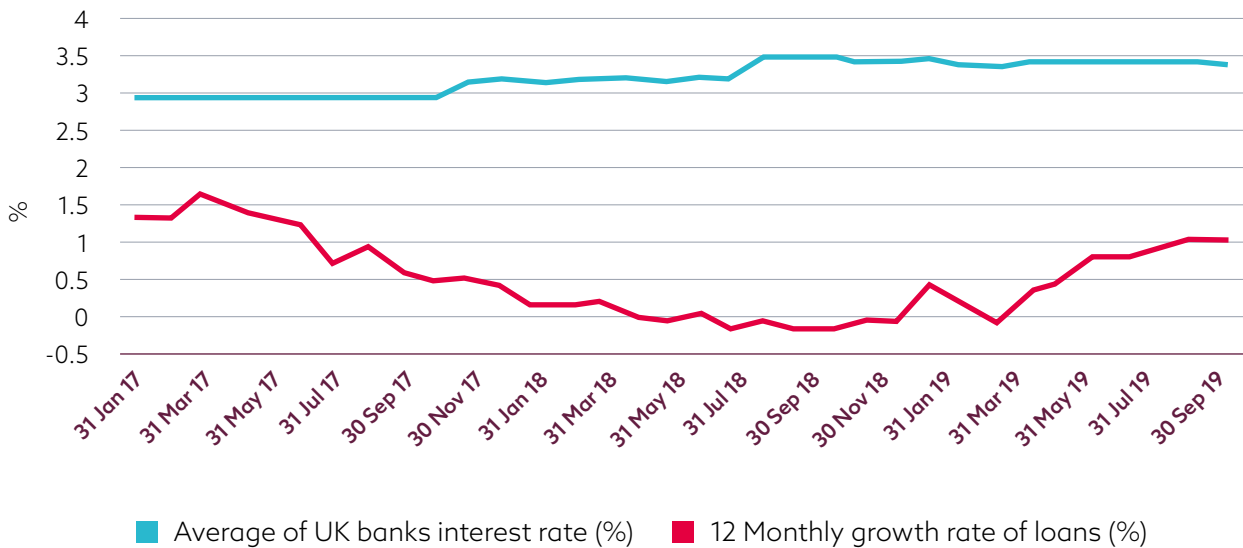
## Important changes in loans provision.

The average interest rate for loans to small businesses has remained unchanged from February to October 2019, at 3.35% (Figure 10). This contrasts the important positive

annual change in loans provision, which increased from -0.1% in March to 1% in October 2019, the highest since June 2017.

**Figure 10.**

*Interest rate on UK SME loans, and growth rates of loans*



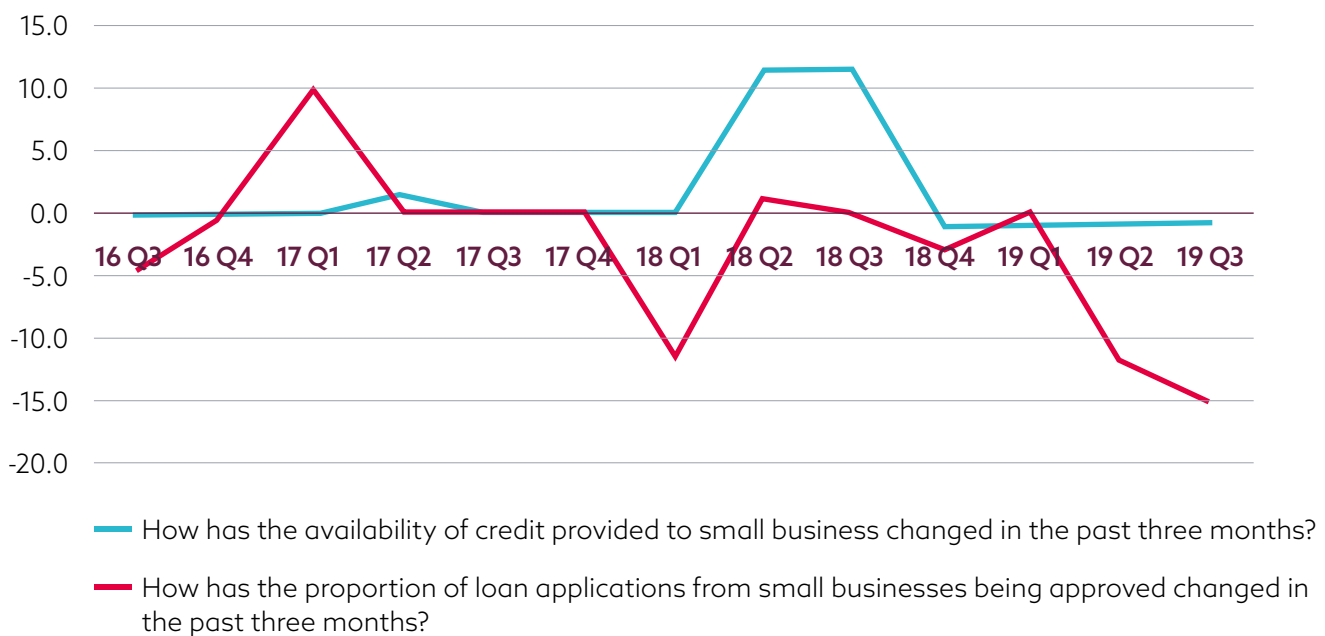
Source: [Bank of England](#)

The *Bank of England Credit Conditions Survey 2019Q3* shows that the supply of credit to UK SMEs has declined by 0.9% from 2019Q2 to 2019Q3 (Figure 11). This is in some contrast to the monthly data shown in Figure 10. The data in Figure 11 is derived from a Bank of England quarterly survey with results based

on a sample of SMEs in the UK. Figure 11 also shows that the success rate of loan applications fell by 15% from 2019Q2 to 2019Q3, possibly as a consequence of the wider uncertain financial context, the recessionary environment and worsening business conditions.

**Figure 11.**

*Supply of credit and success rate of SMEs, % of surveyed SMEs, 2016Q3 to 2019Q3*



Source: [Bank of England, Credit Conditions Survey - 2019 Q2](#)

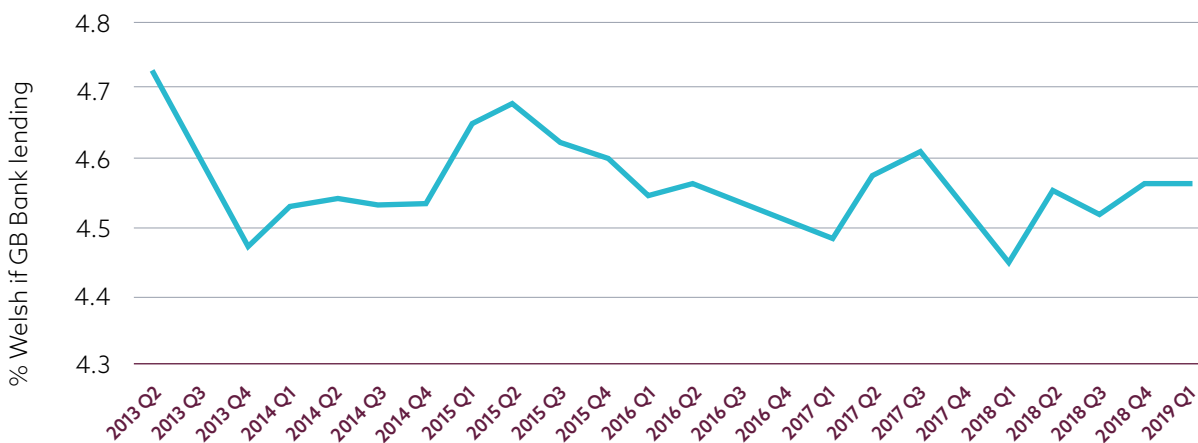
## The Welsh share of GB bank lending to SMEs in 2019Q1 remains stable.

The Welsh share of total GB bank lending to SMEs is above the Welsh share of GB SMEs (which was approximately 3.8% in 2019), and varying between 4.4% and 4.8% in the period 2013Q2 to 2019Q1. Figure 12 shows some

increase in the Welsh share in the period 2017Q1-2017Q3, and then a decline to 2018Q1. In the last three quarters of 2018, the Welsh share of total GB bank lending to SMEs rose to 4.55% and remained at this level in 2019Q1.

**Figure 12.**

*Welsh Share of GB Bank Lending to SMEs (% , 2013Q2-2019Q1)*



Source: [SME lending within UK postcodes](#)

## Despite the impressive increase in the number of private equity deals and venture capital investment in Wales, the size of the deals remains small.

The BVCA Report on Investment Activity 2018 revealed that there was a 42% annual increase in the number of firms in Wales that had received private equity and venture capital investment (74 firms in 2018, increasing from 52 in 2017). Similar increases were recorded in most of the UK regions, with the number of enterprises in the UK that had received private equity and venture capital investment rising annually by 31%. However, according to BEIS research, Wales has the third lowest volume of potential additional demand for equity funding among the UK regions, with this further highlighting the low appetite for equity funding amongst Welsh companies.<sup>13</sup>

While the average investment per company increased from around £1m in 2017 to more than £3m in 2018, the relative size of private equity and venture capital deals in Welsh companies remains small. On the one hand, the share of investment in Welsh companies in total UK investment has remained stable at around 1% during the last five years. On the

other hand, recent analysis undertaken by BEIS has revealed that the deal values in Wales are 20% lower on average than those in London.<sup>14</sup>

The same research confirmed the findings of previous EIW research<sup>15</sup> regarding strong geographical interactions between equity investors and investees. It shows that Wales has among the highest tendencies in the UK for equity investors to invest most of their funds in their home region. Indeed 66% of Welsh investors invested their funds in Wales, with the region attracting a small portion of overseas equity investments (1% of total UK overseas investments, the third lowest in the UK). Wales also has the second highest rate of equity deals involving government bodies (39%), in the analysis of investor-investee pairs, with this highlighting the important role of the Development Bank of Wales in providing equity in Wales. The research showed Wales to have the fourth lowest provision of equity finance from the private sector among the UK regions.

<sup>13</sup> BEIS (2018) Equity Finance and the UK Regions Understanding Regional Variations in the Supply and Demand of Equity and Growth Finance for Business. Available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/821902/sme-equity-finance-regions-research-2019-012.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/821902/sme-equity-finance-regions-research-2019-012.pdf)

<sup>14</sup> See BEIS (2018) footnote 9

<sup>15</sup> EIW (2019) EIW Quarterly Report October 2019. Available at: <https://developmentbank.wales/sites/default/files/2019-10/EIW%20Quarterly%20Oct%202019%20report%20English.pdf> and EIW (2019) Equity Clusters in Wales. Available at: [https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report\\_final.pdf](https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf)

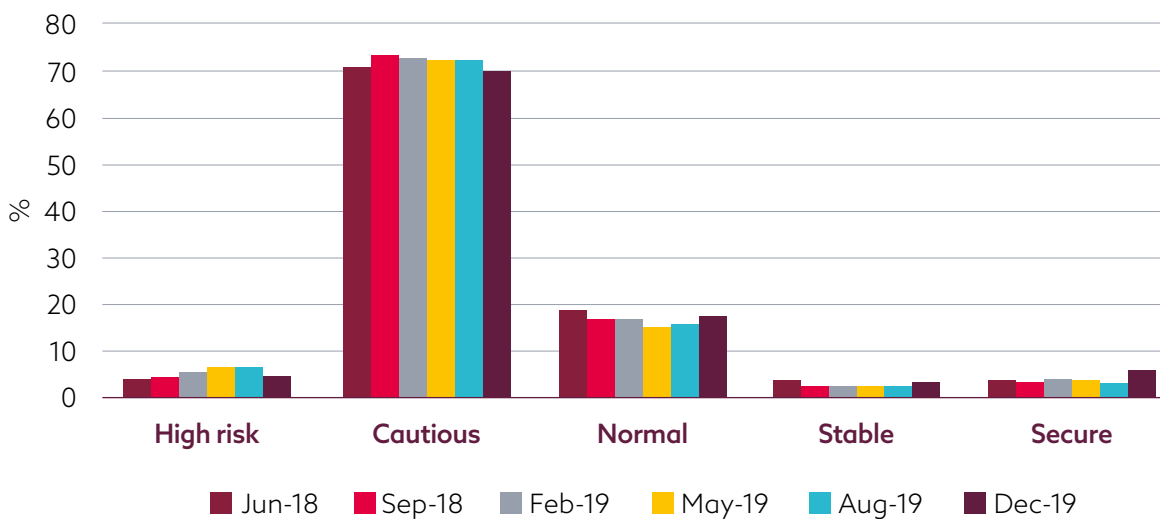
## The share of Welsh SMEs with a High-risk credit rating declines, with increases in the share of SMEs with a Secure credit rating.

Figure 13 shows a significant improvement in the credit rating of Welsh SMEs. The proportion of SMEs estimated to be at High Risk in December 2019 declined to 4.1%, compared to 6.7% in August 2019. There was also a decline in the proportion of SMEs in the Caution category from 72% in August 2019 to 70% in December 2019. By contrast, Normal, Stable and Secure SMEs categories all increased, with the latter recording the highest growth (from 2.9% in August 2019 to 5.5% in December 2019). The

proportion of SMEs estimated to be Secure in December 2019 was the highest since the EIW measures began in June 2018. Caution is needed in drawing firm conclusions from this improved credit risk rating picture for SMEs in Wales, as it is based on observations taken for just one month. It is difficult in the current economic climate to explain these changes, and it will be important to identify in future periods whether this trend is sustained into 2020.

**Figure 13.**

*Proportion of SMEs by Credit Risk in Wales (%), June 2018 - December 2019*



Source: [FAME](#), [Bureau van Dijk](#)

This section summarises Development Bank of Wales' investments to date. All the data

in this section has been derived from the Development Bank of Wales' database.

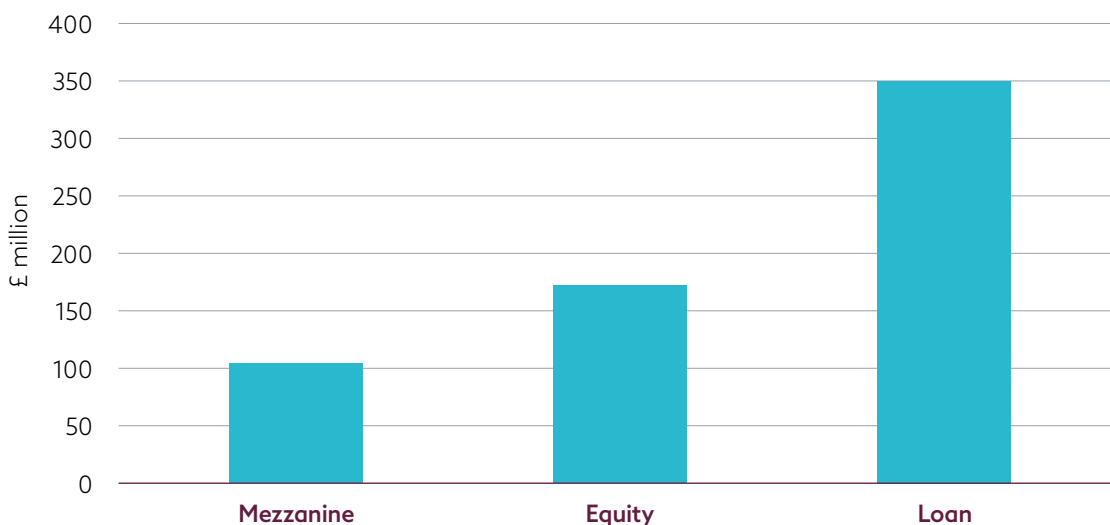
## Total cumulative investment reaches £632 million.

As of 2019/20 Q2 the Development Bank of Wales' total cumulative investment reached £632 million, up from £611m in 2019/20 Q1. Loans exceeded £350 million, accounting for 55.4% of this total (up from 54.3% in the previous quarter), with equity investments (at almost £175 million) representing 27.5%

(down from 28.2%), and mezzanine (£107 million) accounting for the remaining 16.9% (down from 17.5%). Due to a reclassification of investment types by the Development Bank of Wales, mezzanine investment share of DBW total investment will decline in future years.

**Figure 14.**

*Cumulative Investment from 2001/02 to 2019/20 Q2 (£m) by Investment Type*



## 3,666 firms in Wales have received Development Bank of Wales loans.

Between 2001/02 and the end of the 2019/20 Q2, 3,666 firms in Wales had received loans, with these loans linked to activity that has created an estimated total of around 12,475

jobs, whilst safeguarding around 21,035 jobs (Figure 15). Around 323 firms have received equity investment, creating over 3,185 jobs and safeguarding around 2,290 jobs.

**Figure 15.**

*Cumulative Number of Firms Supported and Jobs, from 2001/02 to 2019/20 Q2*

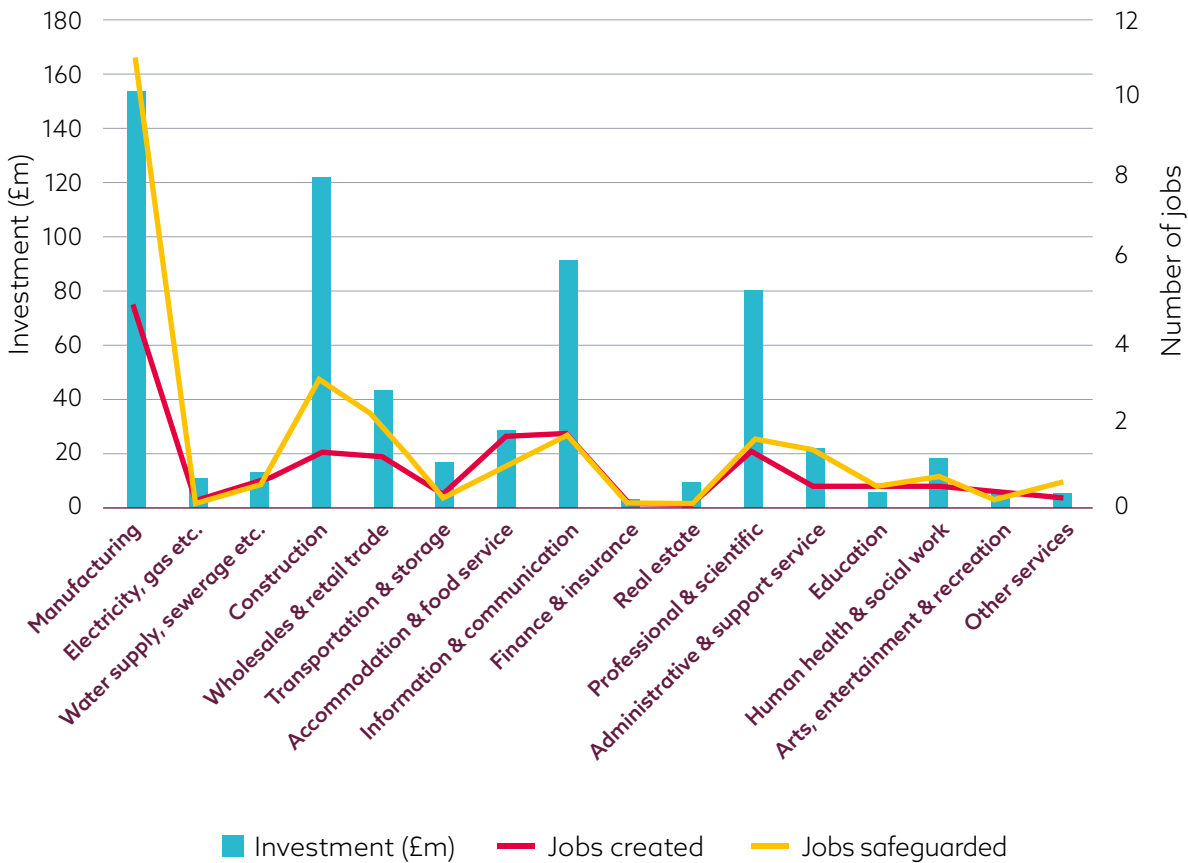


Figure 16 shows that manufacturing has been the main recipient of Development Bank of Wales cumulative investment (£154

million, up from £150 million in the last quarter), followed by construction (£122 million) and ICT sectors (£92 million).

**Figure 16.**

*Cumulative Investment and Jobs by Selected Sector from 2001/02 to 2019/20 Q2*



Loans make up the majority of investments in all Welsh regions, with the South East region accounting for the largest share of all investment types. The South East region

has absorbed £345 million of investment in the period to 2019/20 Q2 (up from £336 million in the last quarter), equal to 54% of all investment (Figure 17).



**Figure 17.**  
Cumulative Investment from 2001/02 to 2019/20 Q2 (£m)

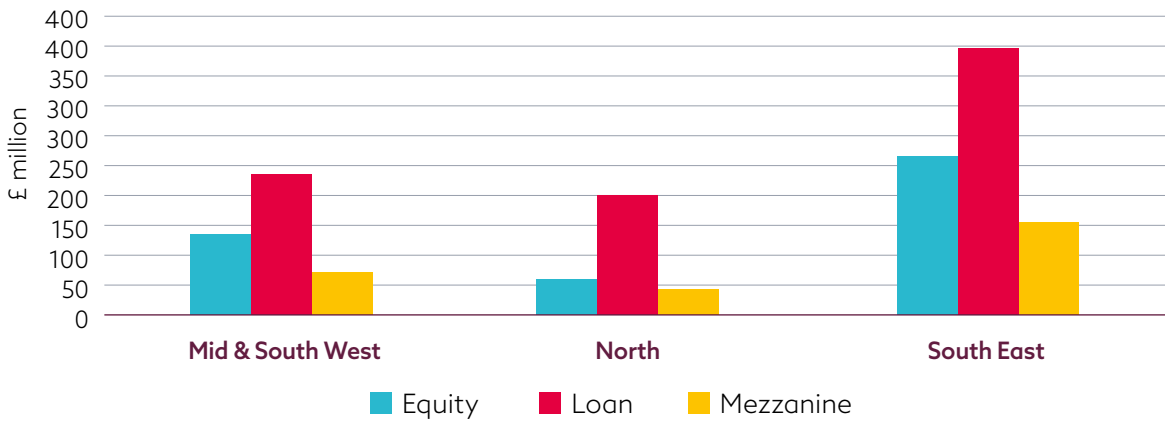
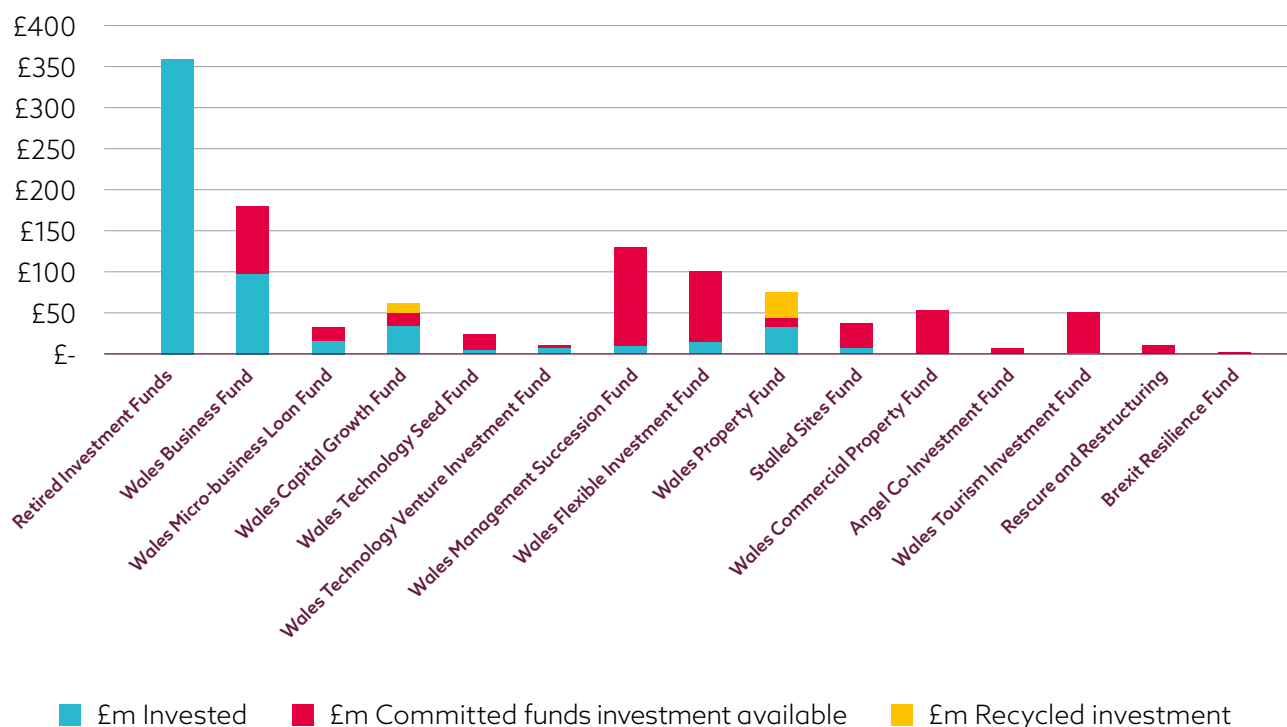


Figure 18 provides details of amounts cumulatively invested and available by fund to the second quarter of the 2019/20 financial year. The EU co-financed Wales Business Fund had invested more than £107m to 2019/20 Q2. Other Funds include the Wales Capital Growth Fund, with £37m of investment,

Wales Property Fund (£35m), and the Wales Micro-business Loan Fund (£19m). The Development Bank of Wales introduced a new Fund, the Brexit Resilience Fund, seeking to help Welsh firms adapt to the changes in a post-Brexit Welsh economy, with the Welsh Government supplying £6 million of funds.

**Figure 18.**  
Development Bank of Wales Cumulative Investment to 2019/20 Q2 by Fund (£m)



## Long term trends in new investment, private sector leverage and jobs.

An historical annual perspective of Development Bank investments, number of enterprises and jobs created and safeguarded is shown in Figures 19 and 20. During the first

two quarters of 2019/20 (not shown on Figure 19) new investment equalled £43 million and private sector leverage (PSL) was £44 million.

**Figure 19.**

*Annual New Investment and Private Sector Leverage (£m)*

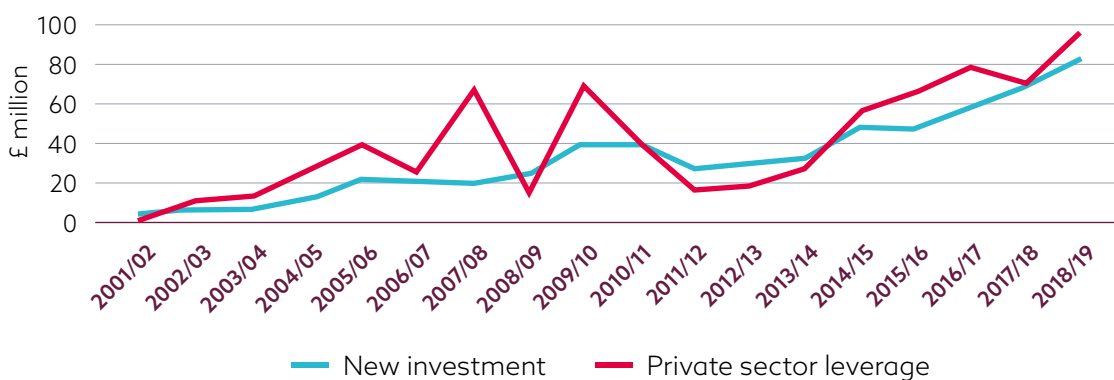
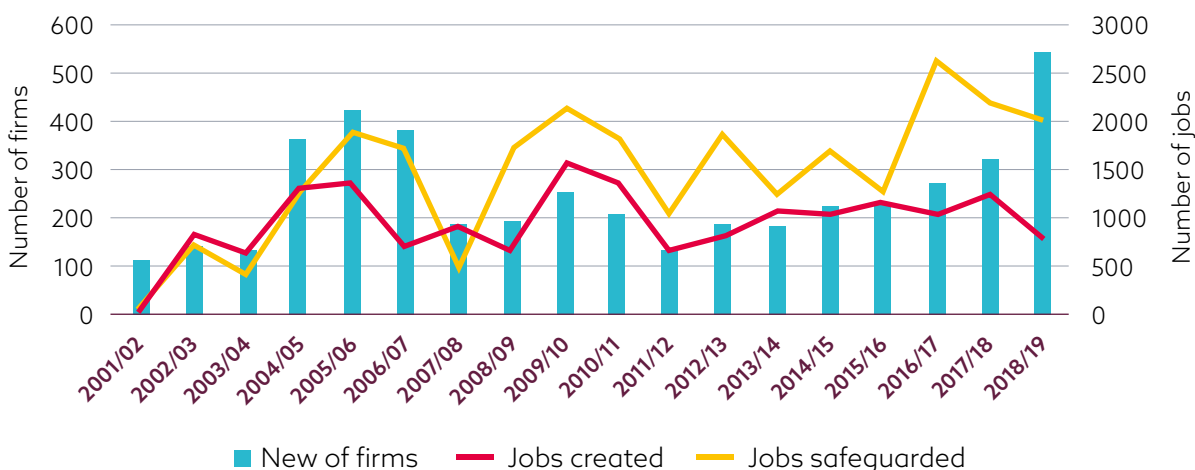


Figure 20 shows the annual number of firms receiving investment and jobs created and safeguarded from 2001/02 to 2018/19. In the last two quarters (not shown on Figure 20), 340 businesses were supported by the Development Bank of Wales. The jobs created and

safeguarded in the first two quarters of 2019/20 were 385 and 1,036, respectively. Cumulatively, since 2001/02, the investment from the Development Bank of Wales has created almost 22,900 jobs and safeguarded 31,700.

**Figure 20**

*Number of Firms Receiving Investment and Jobs Created and Safeguarded*



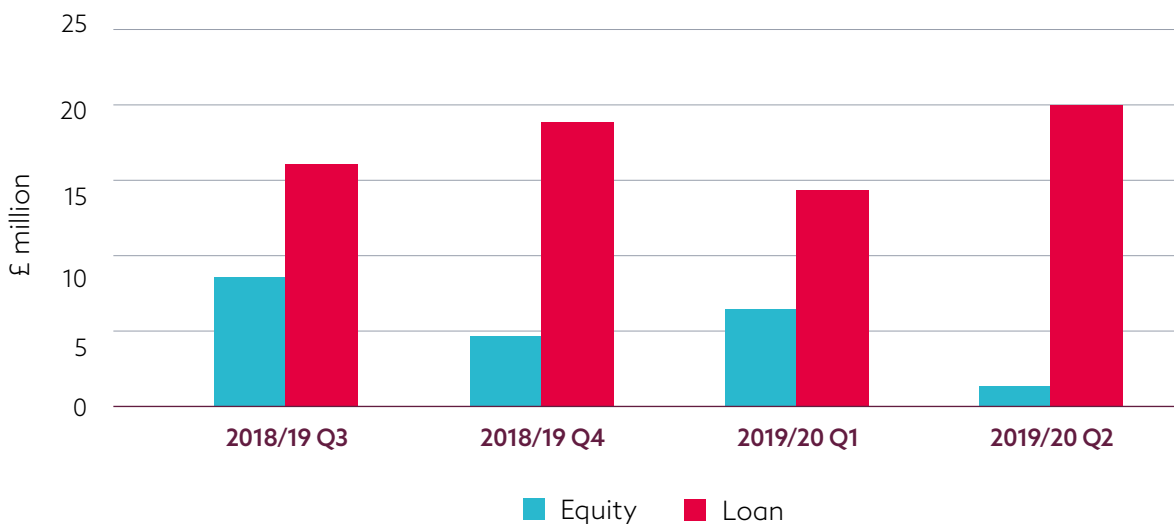
## Strong growth in new loan investment.

New loan investment amounted to £69 million between 2018/19 Q3 and 2019/20 Q2 (Figure 21), increasing by 8% compared to the period from 2018/19 Q2 to 2019/20 Q1. New equity investment investments amounted

to £22 million between 2018/19 Q3 and 2019/20 Q2. No mezzanine investment was recorded from 2018/19 Q3 to 2019/20 Q2, due to the reclassification noted above.

**Figure 21.**

*New Investment 2018/19 Q3 – 2019/20 Q2 by Investment Types (£m)*



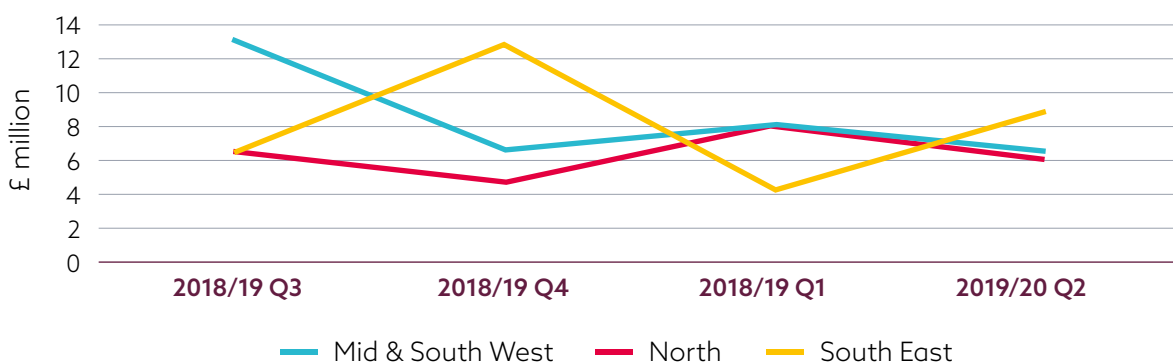
## Second quarter new investment in Mid & South West and North Wales declined.

New investment in Mid & South West and North Wales was around £6.5 million in 2019/20 Q2, with both declining during the second quarter. New investment in Mid & South West Wales declined to £6.5 million from £7.8 million in 2019/20 Q1 (-16.6%), with North Wales' new investment falling from

£7.8 million to £6.3 million (-19.2%). During the second quarter of the 2019/20 financial year, the value of new investment in South East Wales increased following a decline in the first quarter of this financial year. The South East region secured the greatest share of new investment in 2019/20 Q2 (£9 million).

**Figure 22.**

*Amount of New Investment by Welsh region (£m)*



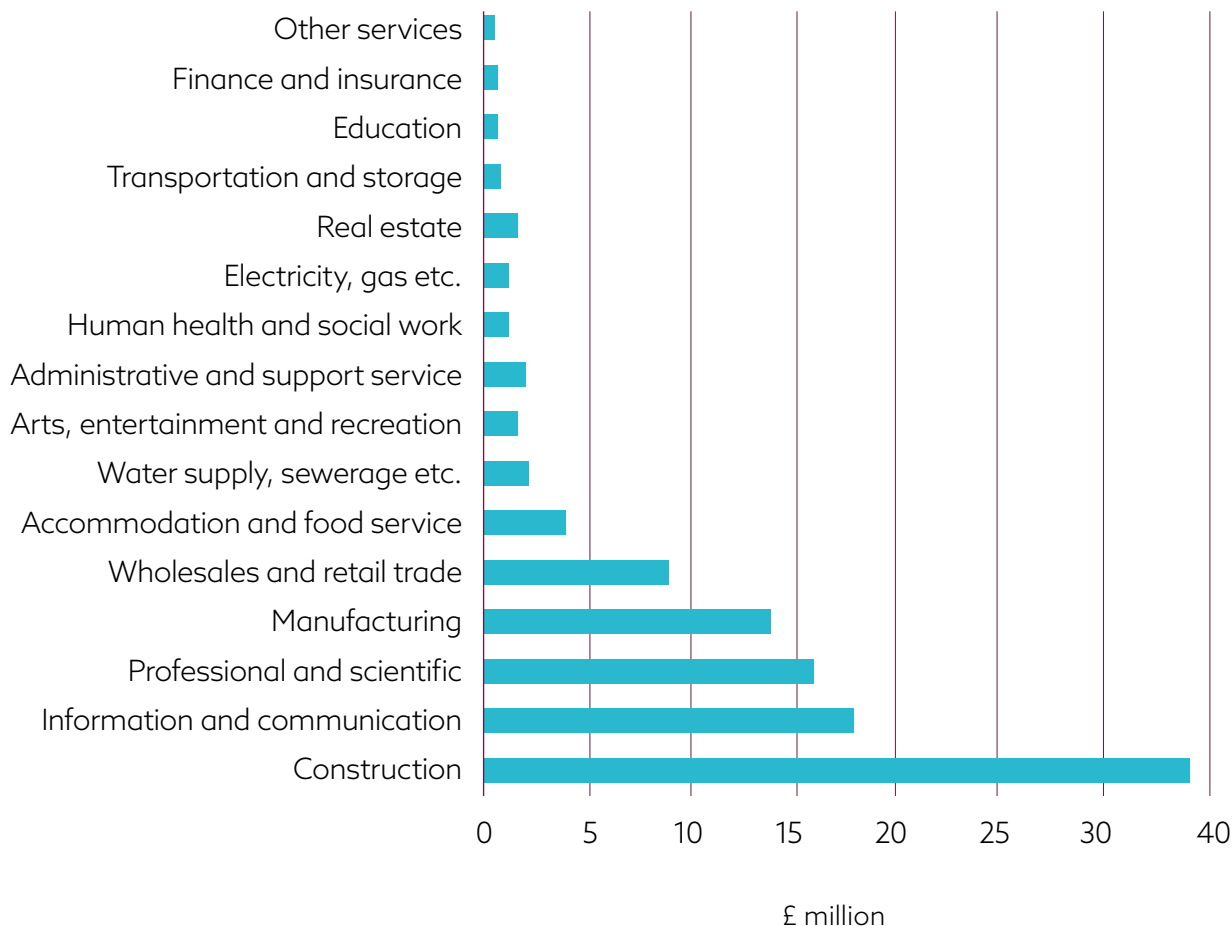
## The construction sector has the largest share of new investment.

From 2018/19 Q2 to 2019/20 Q2 the construction sector received the largest share of new investment (£39.5 million), similar to findings of previous Quarterly Reports.

This was followed by ICT activities (£17.4 million of new investment) and professional and scientific activities (£15.6 million).

**Figure 23.**

*Total new investment, 2018/19 Q2- 2019/20 Q2 (£ million)*



The global and local economic context continues to challenge small business prospects in Wales. While UK GDP growth increased in the third quarter of 2019, UK business investment declined between 2019Q1 and 2019Q2. SME business confidence had been relatively high in Wales in recent quarters, however the SME Confidence Index for Wales had the steepest decline of all UK regions between 2019Q2 and 2019Q3. This followed a quarterly decline in Welsh GDP, of -0.5% in 2019Q1.

While previous EIW analyses highlighted a significant drop in Wales' micro-businesses turnover in the year to 2018 (-20%), based on provisional data from Stats Wales, the revised data shows only a small change (of -0.4%), but with a large decline now shown in the provisional data for the year to 2019, although this figure could be potentially revised again. Medium-sized businesses recorded great increases in enterprise count, employment and turnover from 2017 to 2018 and from 2018 to 2019. The report has noted the difficulties in understanding SME trends with such significant revisions to data and with variations by source, which particularly relate to micro businesses.

The QR reveals some contrasting figures about business dynamism in Wales. For example, Wales recorded the highest business birth rate in 2017 and 2018 across the UK countries and devolved administrations. However Wales had the third lowest share of high-growth companies and the lowest share of scale-ups to the business population among the UK regions in 2018.

The *SME Finance Monitor* suggested that Welsh SMEs using any type of external finance was higher than the UK average in 2019Q2. This could have an impact on the improved picture in SME credit risk ratings. The proportion of Welsh SMEs estimated to be at High risk declined significantly between August and December 2019, with SMEs rated as Secure credit risk increasing.

The Development Bank of Wales has played an important role in supporting SME activity, with total investments of over £632 million since 2001, leveraging over £900 million from the private sector, and creating or safeguarding over 54,500 jobs in Wales. In the second quarter of 2019/20, 178 companies received Development Bank of Wales investments summing to over £22m, £3 million lower than the first quarter of 2019/20, but with these linked to more jobs created or safeguarded than in the first quarter of the current financial year (820 to 600).

This QR has highlighted data differences between sources. The table below shows business figures based on data from the Department for Business, Energy and Industrial Strategy (BEIS) and from Stats Wales, published by Welsh Government. Business Population Estimation from BEIS does not include firms

registered outside Wales, but which have business operations in the region. Stats Wales Business Structure data includes businesses registered in Wales, and those registered elsewhere but with operations in Wales. The most significant differences between data sources are for micro companies.

## **SMEs in Wales, % change in count, employment and turnover by size band (2017-2018 & 2018-2019) by different data sources**

*Department for Business, Energy and Industrial Strategy (registered plus unregistered businesses)*

2017-2018			
	Enterprise Count	Employment	Turnover
Micro	-5.28	-3.75	-3.94
Small	1.52	1.85	6.17
Medium	4.02	5.04	13.44
2018-2019			
	Enterprise Count	Employment	Turnover
Micro	12.38	9.28	4.16
Small	1.32	0	-0.89
Medium	2.70	2.40	2.02

*Department for Business, Energy and Industrial Strategy (registered businesses only)*

2017-2018			
	Enterprise Count	Employment	Turnover
Micro	0.68	0.45	-2.63
Small	1.52	1.85	6.17
Medium	4.02	5.04	13.44
2018-2019			
	Enterprise Count	Employment	Turnover
Micro	2.72	4.02	1.18
Small	1.32	0	-0.89
Medium	2.70	2.40	2.02

Size analysis of businesses: 2019, published by the Welsh Government via Stats Wales

2017-2018			
	Enterprise Count	Employment	Turnover
Micro	2.22	1.73	-0.39
Small	1.08	0.96	4.52
Medium	2.38	4.33	14.06
2018-2019			
	Enterprise Count	Employment	Turnover
Micro	2.26	3	-20.41
Small	1.28	0.62	-0.88
Medium	2.78	2.81	3.43



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