

Economic Intelligence Wales

Quarterly report

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Executive Summary

This report was finalised at the end of March 2020 as the economic implications of the Coronavirus outbreak were beginning to be felt. It is difficult to predict the economic consequences of the outbreak on the demand for and supply side of SME finance in Wales, and indeed on Welsh economic growth. The Budget in March initially announced a £12 billion plan to assist public services, individuals and businesses and the UK Government also agreed to provide support for firms that would have increased costs or cash flow problems caused by the outbreak. Included here were improved Business Rates reliefs, a new Business Interruption Loan Scheme to support lending to SMEs, and a £2.2 billion grant scheme for small firms. However, the scope of assistance was quickly expanded less than a week after the Budget (17th March) with a total support package of £330bn announced and with even more expected to follow. Critically, the pandemic comes on top of economic problems caused by widespread flooding after Storms Ciara and Dennis. This QR3 2019/20 also comes in the aftermath of the UK's departure from the EU and the beginning of the transition period.

Prior to the Coronavirus outbreak, the UK economy was already showing evidence of a slowdown (UK GDP in 2019Q4 remained unchanged compared to the previous quarter), with emerging concerns in the manufacturing sector, mainly due to a decline in car production. In much of what follows in this QR, commentary can only be provided on conditions unfolding as of March 2020, no attempt is made except in the most summary terms, to forecast, at this stage, the impacts of the pandemic on the regional and UK economy. **However, this QR3 is important as a benchmark of economic and SME conditions prior to the impacts of the Coronavirus evolving in the Spring of 2020.**

QR3 reveals that UK business investment fell by 1% in 2019Q4, following a zero change in 2019Q3 and a decline of 0.4% in 2019Q2. The latest available quarterly

The Welsh small business confidence index declined sharply in 2019Q4

Welsh SME confidence fell into negative territory in the third quarter of 2019 (-13%) and declined further to -27% in 2019Q4. This is the second lowest figure across the 12 UK regions.

(experimental) GDP estimates for Wales for 2019Q2 reveal an increase of 0.4%, following a revised decline of 0.6% during 2019Q1.

South East Wales had the highest concentration of Welsh SMEs in all the size-bands in 2019. The wholesale/retail trade sector had the highest number of SME employees in 2019, with the production sector recording the highest average number of employees per firm.

Survey results indicate that **Wales had the second lowest business death rate among the UK countries and devolved administrations in 2018**, possibly implying that Welsh businesses are more resilient. Wales recorded the highest 1-year survival rate among the UK devolved administrations for SMEs that started in 2015 and the second highest 3-year survival rate.

The FSB reports that 24% of Welsh SMEs had reduced their staff numbers in 2019Q4, the highest among the UK regions. Moreover, Wales had the highest proportion of SMEs, among the UK regions, that in 2019Q4, expected to scale back activity in the next 12 months (22.5% of Welsh small businesses).

Executive Summary

The BVCA Report on Investment Activity 2018 revealed an annual increase in the number of private equity deals and venture capital investments in Wales. The amount invested in Wales has tripled compared to 2017, and there has been a significant increase in the average deal size. Most of the investments were made in the ICT industry and Biotech and Healthcare sectors.

In the period December 2019 to February 2020 there were only small changes in the shares of Welsh SMEs in different credit risk groups. This followed a decline in the proportion of SMEs estimated to be at High Risk and in the Caution category and an increase in Normal, Stable and Secure SMEs categories in the period to December 2019. **On the basis of two consecutive measurements, credit ratings have shown some improvement for the Welsh SME sector.**

Development Bank of Wales

In the third quarter of the 2019/20 financial year, 203 firms received investments, up from 162 in 2019/20 Q1 and 178 in 2019/20 Q2.

The value of new investments made by the Development Bank of Wales during the third quarter of the financial year 2019/20 summed to nearly £27 million, up from £22 million in the second quarter. **The 203 investments in 2019/20 Q3 created or safeguarded nearly 660 jobs, down from the 820 jobs in the second quarter.**

This QR3 focused attention on Development Bank property activity with this being an important growth area of business for the Development Bank. Between 2014/15 and 2018/19, 503 investments were made from the Wales Property Fund, Wales Capital Growth Fund, and Stalled Sites Fund, totalling £67 million. These investments created or refurbished 8,794.7 m² of premises and developed 287,869 m² of land. A total of 735 housing units were built during the period, creating or safeguarding an estimated 466 jobs. Prior to 2018, property metrics were not formally reported with continuity across the property funds and so the figures presented here for the period 2014 to 2017 are lower than the actual achieved.

QR3 was finalised at the end of March 2020. Through March 2020 the economic impacts of Coronavirus were starting to be felt in the Welsh and UK economy. No one at this point is able to predict the economic effects of the outbreak on the demand for and supply side of SME finance in Wales, and indeed on Welsh economic growth. The Budget statement (revised at 12th March 2020) announced a £12 billion plan to assist both public services, individuals and businesses, and the UK Government also agreed to provide support to firms that would have increased costs or cash flow problems caused by the outbreak. New announcements included Business Rates reliefs, a Coronavirus Business Interruption Loan Scheme to support lending to SMEs, and a £2.2 billion grant scheme for small firms. Yet this public spending increase proved to be just a small opening gambit in a quickly moving crisis. The Chancellor on 17th March announced a total of £330 billion of guarantees, and with rates holidays for businesses and cash grants for small businesses to assist them through the crisis.

The pandemic problem comes on top of economic problems caused by widespread flooding after Storms Ciara and Dennis. This QR3 2019/20 also comes in the aftermath of the UK's departure from the EU and the beginning of the transition period. Prior to the Coronavirus outbreak, the UK economy was already showing evidence of a slowdown (UK GDP in 2019Q4 remained unchanged compared to the previous quarter), with emerging concerns in the manufacturing sector, mainly due to a decline in car production. In much of what follows in this QR, commentary can only be provided on conditions unfolding as of March 2020, no attempt is made except in the most summary terms, to forecast, at this stage, the impacts of the pandemic on the regional and UK economy. **However, this QR3 is important as a benchmark of economic and SME conditions prior to the impacts of the Coronavirus evolving in the Spring of 2020.**

Sections 2-3 of this report provide data and commentary on the UK and Welsh macroeconomic context (as understood at early March 2020) 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.

This QR also provides a summary analysis of the Development Bank's property investments. Future QRs will focus on other sectors of Development Bank investment activity. 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.

Following the departure of the UK from the EU, the implementation of the transition period comes alongside the negotiations for the future trade relationship. The new trade relationship is important for many of Wales' larger exporting sectors, but also for smaller firms which serve the exporting sector in Wales and the rest of the UK.

Many Welsh manufacturing SMEs are themselves, relatively dependent on

EU markets. The European Union is by far the largest customer for Welsh goods exports, accounting for 60% of the total Welsh goods exports market. The transition to this new relationship will affect the economic and trade conditions impacting business growth, as well as the demand for, and supply of, different types of finance.

UK economic growth remains flat during the fourth quarter of 2019.

Latest data shows that UK GDP remained unchanged in the quarter to 2019Q4.¹ This follows a revised increase of 0.5% in 2019Q3. However, UK GDP had increased by 1.1% compared with the same quarter a year ago (2018Q4). GDP growth in 2019 Q3 UK was a result of small increases in UK construction and services sector output, which continued into 2019Q4. Construction recorded a 0.5% quarterly increase, but with services increasing by just 0.1%, the lowest growth rate since the middle of 2016. This change validates expectations from business surveys where confidence about the UK service sector growth in August 2019 declined for the third consecutive month to the lowest level for more than three years.²

UK production sector GDP declined by 0.8% in the final quarter of 2019. This fall was partly a consequence of a decline in car production. UK car manufacturing has declined from June 2018 to November 2019, having fallen by 14.5% in the first 11 months of 2019.

The ONS estimates show that UK GDP will have increased by 1.4% between 2018 and 2019, slightly above the 1.3% growth seen

between 2017 and 2018. The Bank of England forecast economic growth for 2019 is 1%, which would be the weakest economic growth outside a recession since the end of the Second World War. Importantly - UK growth was slowing before the Coronavirus outbreak.

The latest available quarterly (experimental) GDP estimates for Wales (for 2019Q2) reveal an increase of 0.4%, following a revised decline of 0.6% in the quarter to 2019Q1.³ Compared with 2018Q2, GDP grew by 0.7%. With half of the sectors recording positive quarterly growth, the increase in Welsh GDP was driven mainly by agriculture (3.8%) and services (2%), with construction and production declining (-6.7% and -3% respectively). The decline in production was mainly caused by manufacturing, while the increase in services resulted largely from the transport and storage sector.

The latest ONS regional GDP per capita estimates⁴ show that Wales climbed off the bottom place in 2018 among the UK NUTS 1 regions, achieving a 0.9% annual growth of real GDP per head to £23,866 in 2018, just above the £23,569 GDP per capita in the North East.

¹ See <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2019>

² See <https://www.markiteconomics.com/Public/Home/PressRelease/bec4ba3ae8ac45008c46a8bc6b71a07d>

³ See <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpwales/apriltojune2019>

⁴ See <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/regionaleconomicactivitybygrossdomesticproductuk/1998to2018?hootPostID=1fcc521932edbf910ec20f7f17219fe>

At the sub-regional level, three of the bottom ten UK NUTS 3 regions based on GDP per capita are in Wales (Isle of Anglesey, Gwent Valleys, and Central Valleys). Among the four capital cities,

Cardiff achieved the third highest annual increase in GDP per head at 1.4% between 2017 and 2018, following London (2%) and Edinburgh (1.5%).

A fall in UK business investment.

Confirming the predictions made by the Confederation of British Industry for 2019, UK business investment fell by 1% in 2019Q4, following a zero change in 2019Q3 and a decline of 0.4% in 2019Q2. According to the latest *Agents' summary of business conditions*,⁵ published by the Bank of England, the investment intentions of businesses remained depressed in the last quarter of 2019 due to the political uncertainty and the slower pace of global growth. Again there was strong evidence here of a slowdown prior to the Coronavirus outbreak.

The Bank of England decided to keep interest rates unchanged in February 2020 (at 0.75%) but cut this in March to 0.25% as an emergency response to the Coronavirus outbreak. The latest figures about inflation indicate a rise from 1.3% in December 2019 to 1.8% in January 2020, a six-month high. The Bank of England has also cut its forecast for UK GDP growth for 2020: first, in November from 1.3% to 1.2%, and second, in February, from 1.2% to 0.8%. However, these forecasts predated Coronavirus in large measure. Economic growth prospects now face added uncertainty as the scale and duration of the economic impacts of the Coronavirus cannot yet be established. However, it is now expected that the UK (and global) economy will dip into recession during 2020.

The labour market in Wales strengthened in the last quarter of 2019. Wales' unemployment rate fell by 0.9%, compared to 2019Q3, to 2.9% in 2019Q4, being the third lowest rate among the 12 UK regions.⁶ The UK unemployment rate was 3.8% for the period October-December 2019, dropping very slightly from the 3.9% figure for 2019Q3. The new UK immigration system in the post-Brexit period is seeking to 'reduce the overall levels of migration', prioritise 'the skills a person has to offer', in order to 'create a high wage, high-skill, high productivity economy'.⁷ This emphasis is expected to affect some sectors of the UK and Welsh labour markets and linked business prospects.

UK wages top the levels before the 2007/8 global financial crisis

The last quarter of 2019 saw average UK wages topping levels seen before the 2007/8 global financial crisis. Real regular average weekly earnings exceeded the highest level before the economic decline in March 2008 (£474).

⁵ See <https://www.bankofengland.co.uk/agents-summary/2019/2019-q4>

⁶ See <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/february2020>

⁷ See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/866744/CCS0120013106-001_The_UKs_Points-Based_Immigration_System_WEB_ACCESSIBLE.pdf

Small firms' confidence in Wales declined in 2019Q4, with Welsh SMEs having the highest proportion of businesses reducing staff levels.

The *UK Small Business Index* remained negative for a sixth consecutive quarter. This is unprecedented in the history of the *Small Business Index*.⁸ The *UK Small Business Index* was -8.1 in 2019Q3 and plummeted to -21.6 in 2019Q4.⁹ In the wider context of economic uncertainty, the confidence index was at the lowest point since last the Credit Crunch. The net balance of UK SMEs reporting a decline in profits was 42% compared to 27% reporting an increase, with profitability being at 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 (-13), with the steepest decline in confidence of all UK regions between 2019Q2 and 2019Q3. A further fall to -27 was reported in 2019Q4. This is the second lowest figure across the UK regions (alongside Scotland), with London at the bottom (-36). This survey also reports that 24% of Welsh SMEs had reduced their staff numbers in 2019Q4, the highest among the UK regions. Moreover, Wales had the highest proportion of SMEs, among the UK regions, that in 2019Q4, expected to scale back activity in the next 12 months (22.5% of Welsh small businesses). Clearly this situation will have worsened considerably approaching the end of the first quarter of 2020 due to the Coronavirus outbreak.

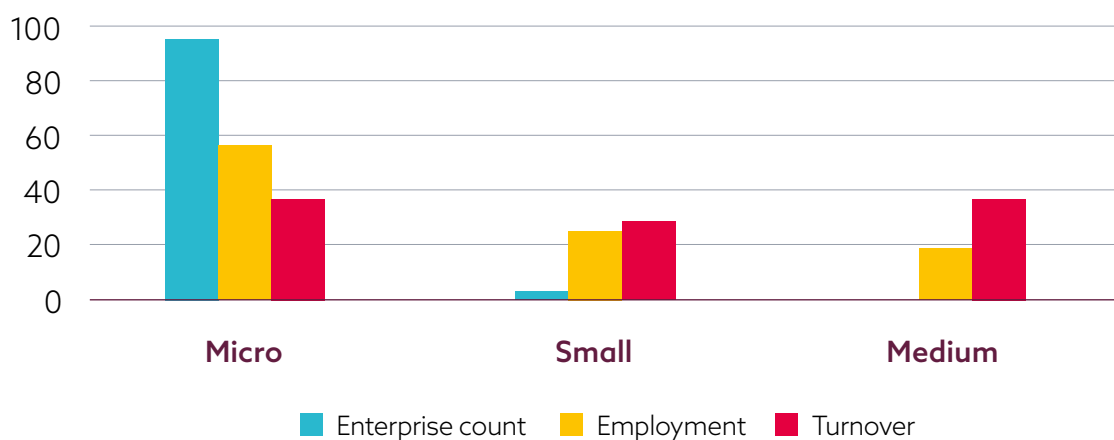
⁸ "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' 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, 2020).

⁹ FSB (2019). FSB voice of small business index, Quarter 4 2019. Available at: <https://www.fsb.org.uk/static/a46bb570-8767-48ca-83c743cf52cb7f07/FSB-SBI-Q4-2019.pdf>

Based on provisional data derived from Stats Wales,¹⁰ 95.6% of SMEs in Wales employed 0 to 9 people in 2019, 3.6% are small companies, and 0.8% have 50 to 249 employees (Figure 1). Micro firms contribute 56% of SME employment in Wales, with small firms accounting for

24% and medium-sized for 20%. The SME turnover information is less clear and should be treated with more caution. As noted in QR2, provisional data for micro business turnover is likely to be revised in future years.

Figure 1.
SMEs in Wales by Size Band (% , 2019)



Source: Stats Wales, Business structure in Wales by size-band and measure (provisional data)

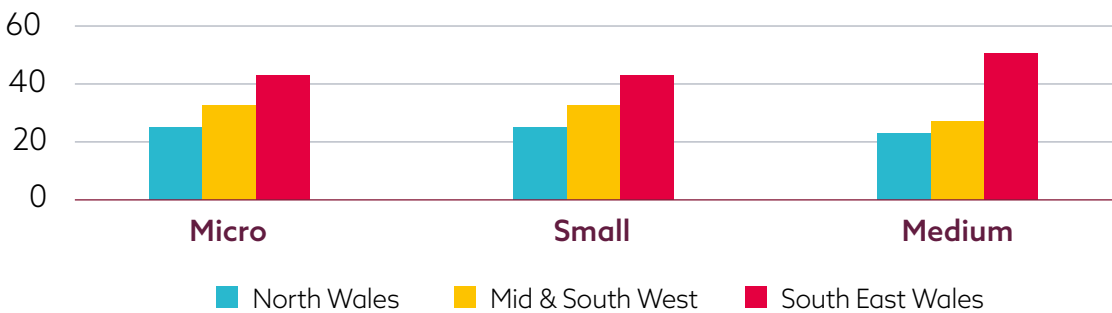
¹⁰ Welsh Government data is published via the StatsWales platform. The Source document here is <https://gov.wales/sites/default/files/statistics-and-research/2019-12/size-analysis-active-businesses-2019-503.pdf>

South East Wales demonstrates the highest concentration of SMEs in all the size-bands in 2019.

SMEs are not evenly distributed across Wales. South East Wales had the highest concentration of SMEs in all the size-bands, with a higher concentration of medium-sized companies (Figure 2). More than 1,270 of the 2,520 medium-sized Welsh companies were located in South East Wales (over half of all medium-sized firms).

Around a quarter of Welsh micro and small firms were located in North Wales and one third of the Welsh micro and small businesses were in Mid & South West Wales. The picture of Welsh SME geography in 2019 is almost unchanged compared to the one in 2018.

Figure 2.
SME count in Wales, % by region and size band (2019)



Source: Stats Wales, Enterprises by size-band, area and year (provisional data)

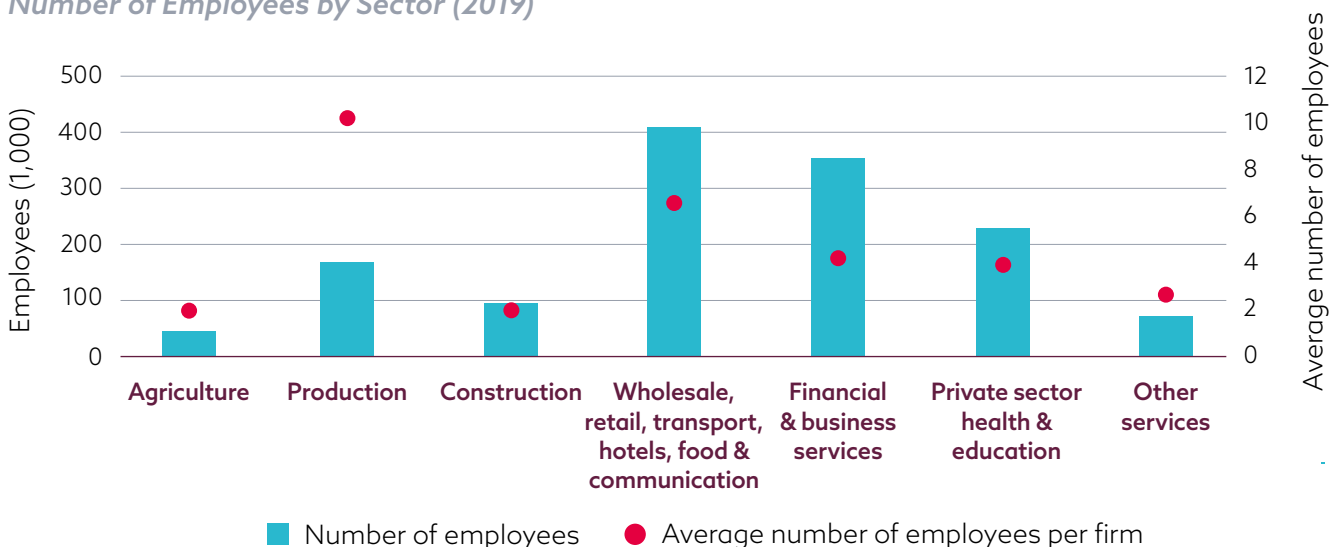
The wholesale/retail trade sector had the highest SME employment in 2019.

Welsh SMEs are also unevenly distributed across sectors of the economy. Wholesale and retail, transport, hotels and food, and communication is the SME sector that employed most people in Wales in 2019 (Figure 3). It is also this broad small firm sector that is already experiencing the most adverse effects from the Coronavirus outbreak. Around 34% of employees in the SME sector were in this industry (400,000 employees), followed by financial and business services (227,000), private sector health and education (172,000), and production (167,000). Wholesale/retail, financial and business services and construction were the industries with the highest enterprise count in 2019 (61,000, 57,000 and 48,000), with production having the lowest numbers (16,000).

The production sector had the highest employment rates per SME in Wales

The production sector had the lowest enterprises count in 2019. However, this sector had the largest employment size per SME firm in Wales, with 10 employees per firm, followed by wholesale/retail (6.5 employees) and private sector health and education (5.5).

Figure 3.
Number of Employees by Sector (2019)



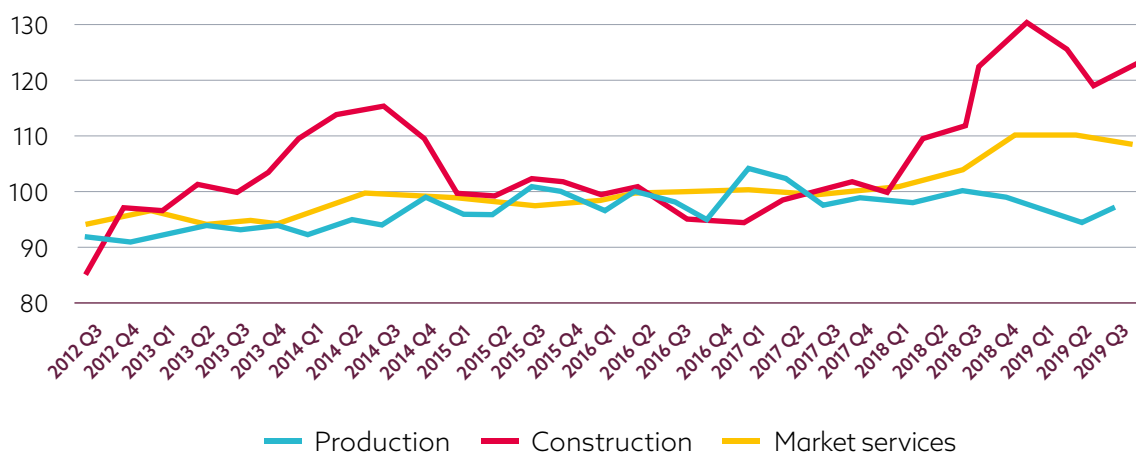
Source: Stats Wales, Enterprises by industry (SIC2007), size-band and area (provisional data)

Output growth in the construction and production sector recovers, with slowing output growth in market services.

The trends in SME count, employment and turnover link through to wider changes in short term output indicators in the Welsh economy. Figure 4 shows the quarterly movement in the Welsh indices of production, construction and market services, from 2012Q3 to 2019Q3. The index of construction sector output increased, recovering after two consecutive quarters of negative growth. In 2019Q3, it was placed well above (by 23%) its base year index value in 2016. This increase has been affected by the 2019Q3 expansion in UK construction sector GDP, as reported in EIW QR2.

Figure 4 shows the previous increase in the market services index in Wales has stalled, after five consecutive quarters of positive growth. The production index for Wales has showed some recovery in 2019Q4. The production index is currently close to its 2016 base year index level. Given the 2019Q4 0.8% decline in UK production sector GDP, this sector's output prospects in Wales are uncertain.

Figure 4.
Welsh output indices: trends 2012Q3 - 2019Q3 (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 second lowest business death rate in 2018 and the highest 1-year survival rate for firms established in 2015 across the UK.

The EIW QR2 reported that Wales had the highest business birth rate across the UK countries for two consecutive years (2017 and 2018). The examination of business death rates and survival provides some valuable insights for the resilience of the regional economy. The business death rate in Wales was the second lowest among the UK devolved administrations and countries in 2018, at 10.4%, above Northern Ireland (7.9%), and below England (11.5%) and Scotland (11.8%), with a UK average of 11.4%. This could signal weaker economic dynamism for Wales, since the most dynamic economies record high birth and death rates. However, this could also imply that Welsh businesses are more resilient

with higher survival rates. There is expected to be a major shock in terms of business death rates in Wales resulting from the Coronavirus outbreak, and this in spite of Treasury attempts to stem the effects of the crises.

Figure 5 shows that Wales recorded a slightly higher one-year survival rate than the UK average, with 90.8% of newly born companies in 2015 still operating in 2016, with the UK average at 89.7%. Wales had the second lowest 2-year survival rate at 71.1%, above Northern Ireland (69.8%) and below Scotland (71.3%) and England (71.4%). Wales also had a slightly higher three-year survival rate than the UK for firms founded in 2015.

Figure 5.

One to Three Year Survival Rate % of Enterprises Born in 2015



Source: ONS, Business Demography

It is underlined here that the commentary below relates to the situation as at the beginning of March 2020. Loan and finance conditions for Welsh SMEs are quickly evolving as a result of the Coronavirus response noted earlier in this QR3.

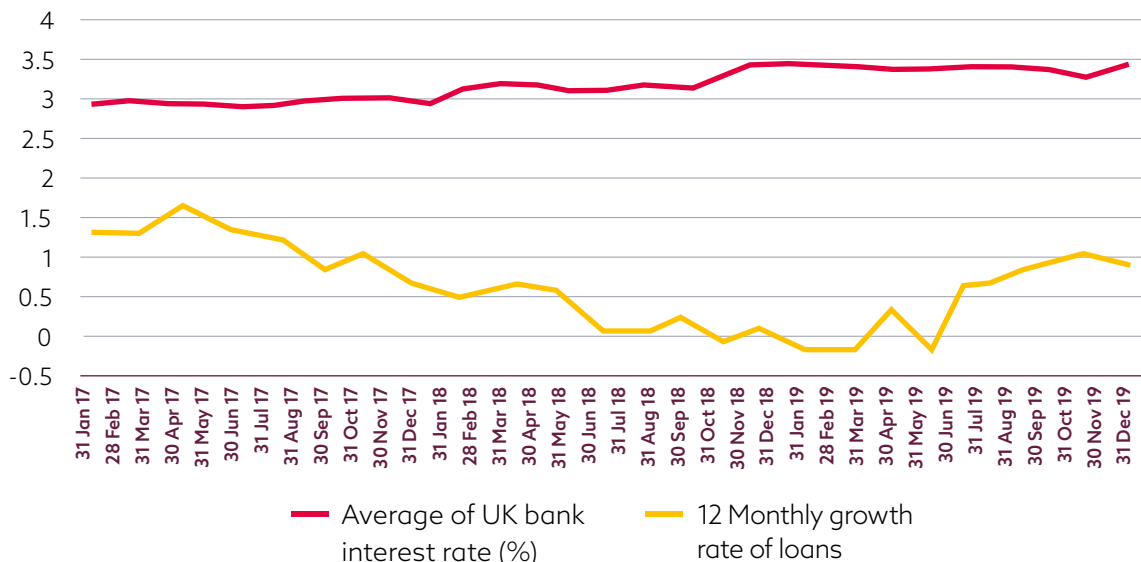
Small changes in loans provision and interest rates.

The average interest rate for loans to small businesses has declined from 3.34% in October 2019 to 3.21% in November, before increasing to 3.31% in December (Figure 6).

Figure 6 also reveals a small annual change in loans provision, which declined from 1.1% in October to 0.9% in December 2019.

Figure 6.

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



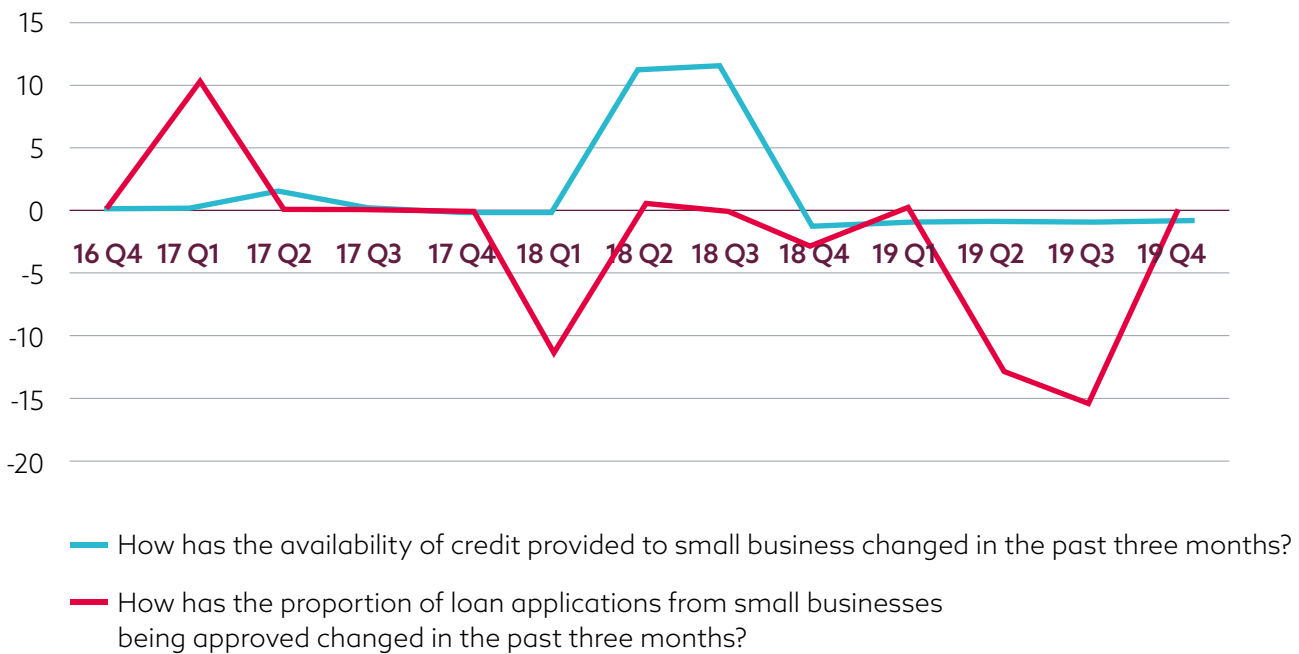
Source: Bank of England

The Bank of England Credit Conditions Survey 2019Q4 shows that the supply of credit to UK SMEs has remained unchanged in 2019Q4 (Figure 7). The data in this Figure is derived from a Bank of England quarterly survey

with results based on a sample of SMEs in the UK. Figure 7 also shows an increase in the success rate of loan applications from -15.2% in 2019Q3 to 0.3% in 2019Q4, after five consecutive quarters of decline or stagnation.

Figure 7.

Supply of credit and success rate of SMEs, % of surveyed SMEs, 2016Q4 to 2019Q4



Source: Bank of England, Credit Conditions Survey – 2019 Q3

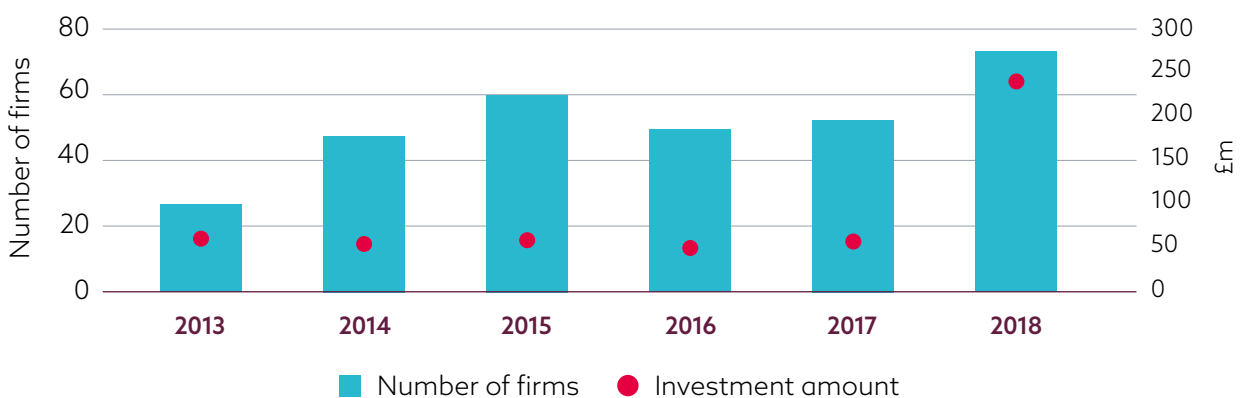
Increases in the average deal sizes of private equity and venture capital investment in Wales.

As revealed in the EIW QR2 report, 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).

A feature of these new investments is the significant increase in the average deal size, which increased from approximately £1m in the period 2012-2017 to £3.2m in 2018.

Figure 8.

Number Companies in Wales Receiving Investment from BVCA (£m)



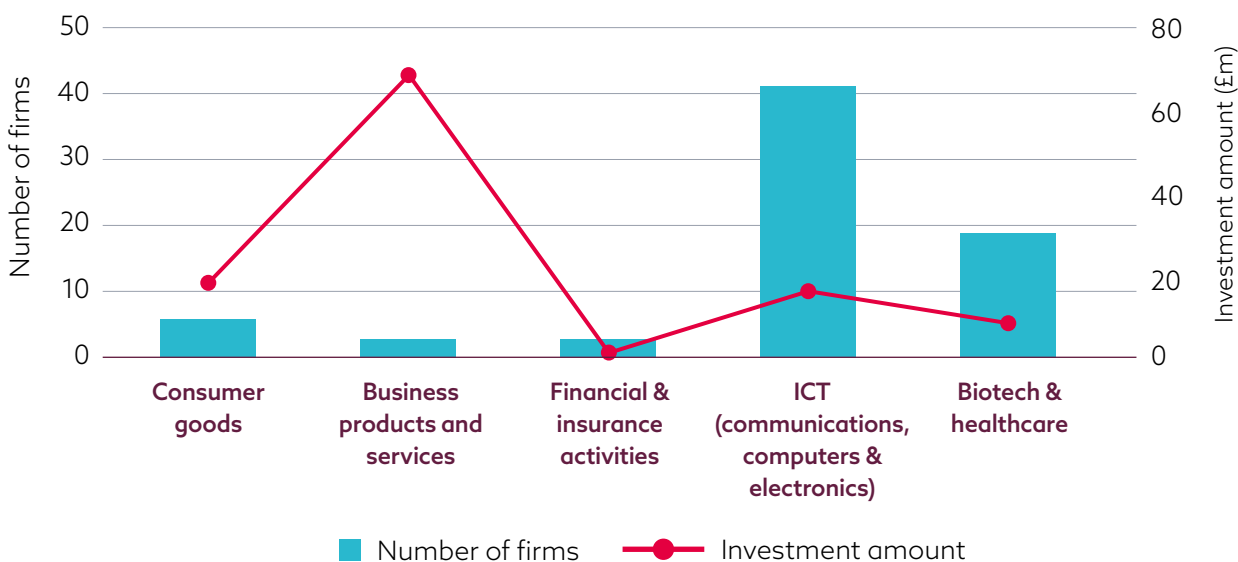
Source: British Private Equity and Venture Capital Association, BVCA Report on Investment Activity (2018)

Equity and venture capital investment in Wales was unevenly distributed across the different sectors of economic activity. Figure 9 shows that most of the investments were made in the ICT industry (41), followed by Biotech and healthcare (18). However, the investment

amount in these sectors is relatively low (£16m in the ICT sector and £8m in Biotech and healthcare). By contrast, business products and services had only two investments which attracted around £70m of finance in total.

Figure 9.

BVCA Investment in Wales by selected Sector (2018)



Source: British Private Equity and Venture Capital Association, BVCA Report on Investment Activity (2018)

Confirming evidence from previous EIW work on the low spinout activity in Wales,¹¹ a recent report from Beauhurst¹² indicated that Wales had the lowest UK regional investment into spinouts at £1.3m in 2019. The East of England ranked first among the UK regions with £514m of investment in spinouts.

¹¹ See https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf

¹² See <https://about.beauhurst.com/research/Spinouts-investment-report/>

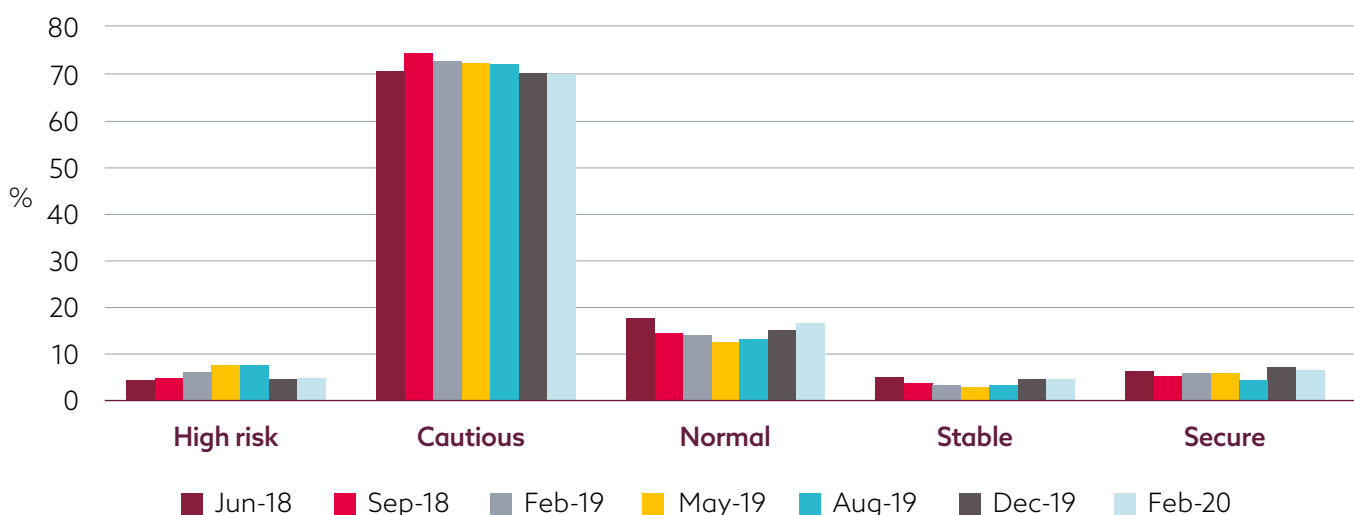
Small changes in the shares of Welsh SMEs in the credit risk groups.

Figure 10 shows small changes in the credit rating of Welsh SMEs in the most recent period (February 2020). A decline in the proportion of SMEs estimated to be at High Risk and in the Caution category and an increase in Normal, Stable and Secure

SMEs categories was recorded in December 2019. Whilst caution is needed in drawing firm conclusions from observations over a short timescale, the improved credit risk rating picture for SMEs in Wales was maintained into the early months of 2020.

Figure 10.

Proportion of SMEs by Credit Risk in Wales (%), June 2018 – February 2020



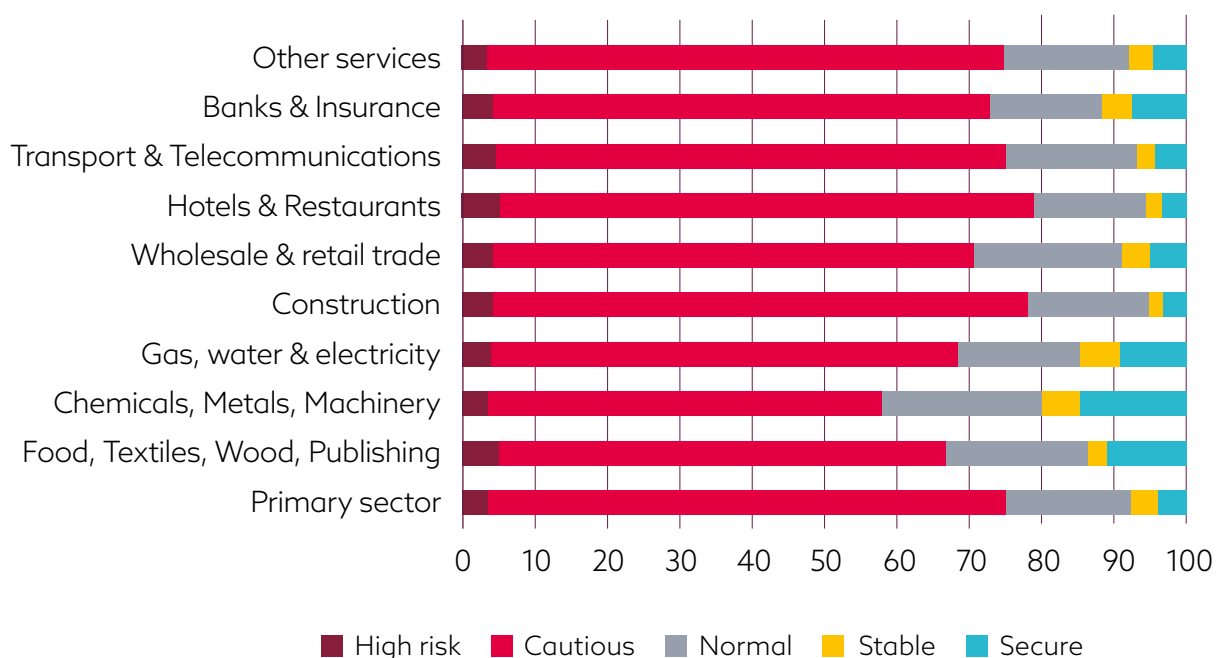
Source: FAME, Bureau van Dijk

Figure 11 shows how the proportions of SMEs in the different risk categories vary by sector. The sectors with the best credit rating include chemicals, metals, and machinery, food, textiles, and wood products. The sectors with the lowest credit rating include hotels and

restaurants, transport and telecommunication, and construction. It is underlined that sectors such as hotels, catering and transport are among those sectors that will be affected most severely by the Coronavirus outbreak.

Figure 11.

Proportion of SMEs by Credit Risk and Sector in Wales (% , February 2020)



Source: FAME, Bureau van Dijk

This section summarises Development Bank of Wales' investments in 2019/20 Q3. All the data in this section has been derived from the Development Bank of Wales' database.

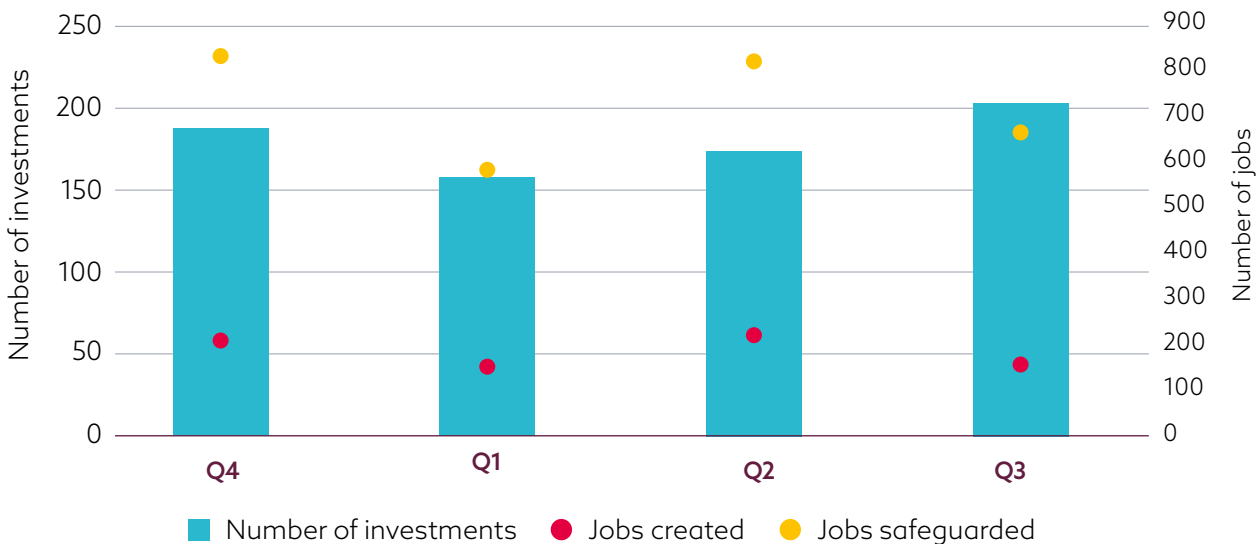
203 investments in 2019/20 Q3.

The Development Bank made 203 new investments in 2019/20 Q3, up from 162 in 2019/20 Q1 and 178 in 2019/20 Q2 (Figure 12). The total investment value in Q3 was £26.8m, up from £21.1m in 2019/20 Q1 and £21.6m in

2019/20 Q2. The average investment amount was similar to that in the two previous quarters of 2019/20 (i.e. approximately £0.13m). The 203 investments in 2019/20 Q3 created or safeguarded 658 jobs (3.2 jobs per investment).

Figure 12.

Number of Investments and Jobs created and Safeguarded, 2018/19 Q4 - 2019/20 Q3



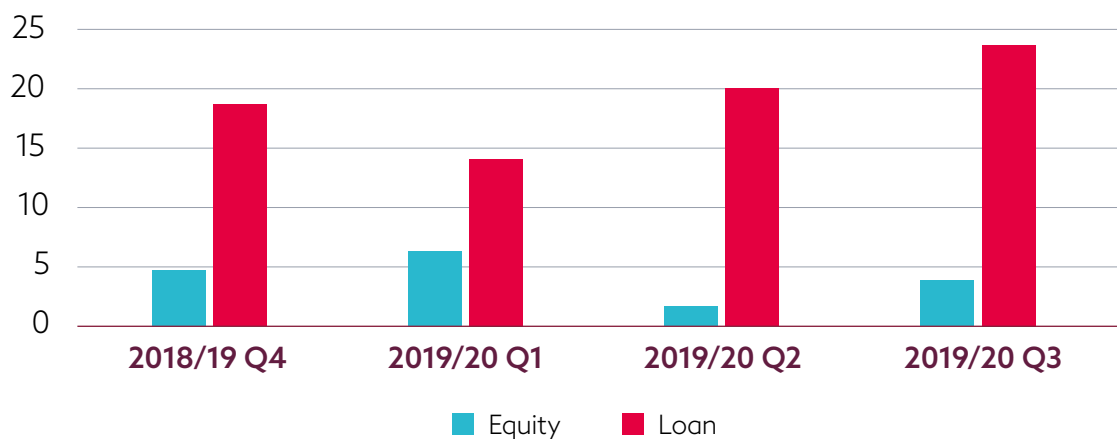
Strong growth in new loan investment.

New loan investment amounted to £23.1m, up from £20m in 2019/20 Q2, increasing for the second consecutive quarter (Figure 13). Equity investment recovered, after the 74%

decline from 2019/20 Q1 to 2019/20 Q2 (falling from £6.9m to £1.8m). Equity investment increased to £3.6m in 2019/20 Q3.

Figure 13.

New Investment by Investment Type (£ million), 2018/19 Q4 - 2019/20 Q3



New investment in Mid & South West Wales further declined.

In the last two quarters, the majority of Development Bank investments were made in firms located in South East Wales. The investments in South East Wales amounted to

£9m in 2019/20 Q2 and £10.8m in 2019/20 Q3. New investment in Mid & South West Wales declined to £6.1m in 2019/20 Q3, with North Wales' investment increasing to £9.8m.

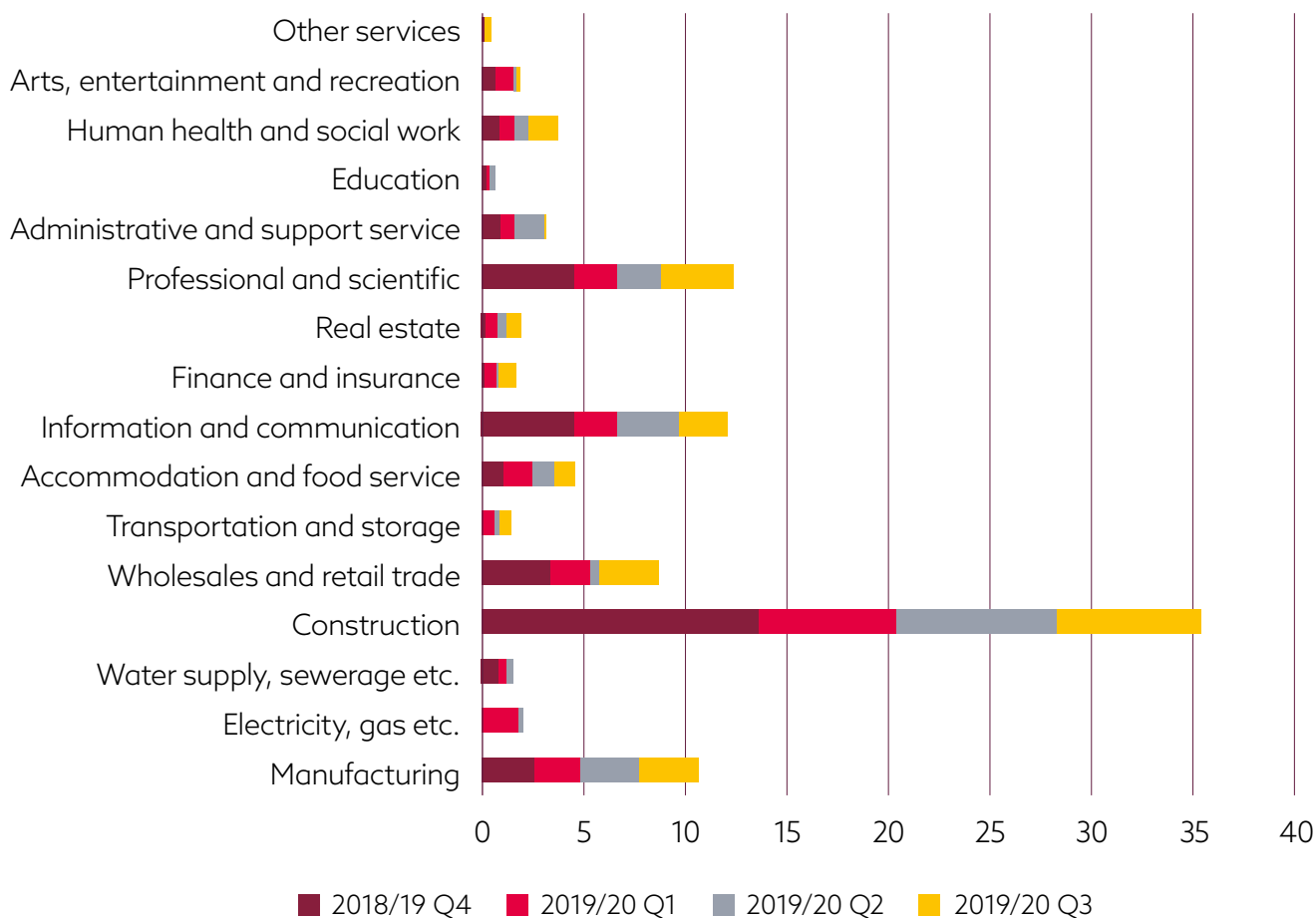
First quarter new investment in South East Wales declined.

From 2018/19 Q4 to 2019/20 Q3 the construction sector received the largest share of new investment for each quarter, followed

by professional and scientific activities, ICT activities, and manufacturing (Figure 14).

Figure 14.

New investment by sector (£ million), 2018/19 Q4 - 2019/20 Q3



Wales Business Fund makes the majority of investment in 2019/20 Q3 .

In terms of amounts cumulatively invested and available by Fund to 2019/20 Q3 there was a strong performance from the EU co-financed Wales Business Fund. This had invested more than £8m in the third quarter of the 2019/20 financial year, reaching a total

investment of £115m to 2019/20 Q3. Other Funds include the Wales Property Fund (£42m, £7m new investment in 2019/20 Q3), the Wales Capital Growth Fund (£25m of total investment), and the Wales Flexible Investment Fund (£23m of total investment).

DBW property development investment portfolio analysis.

The Development Bank property development portfolio is an important and growing segment of Bank business. This QR focuses on the growth of the Development Bank's property development investment portfolio over time, based on the performance of the Wales Property Fund, Wales Capital Growth Fund, and Wales Stalled Sites Fund. Recently, the Welsh Government and Development Bank of Wales launched the £210m Self Build Wales scheme to support self/custom builds. This supports finding plots with planning permission, avoids paying third party developer profits on new builds and loans provided are only repayable upon completion. Prior to 2018, property metrics were not formally reported with

continuity across the property funds and so the figures presented here for the period 2014 to 2017 are lower than the actual achieved.

The examination of premises created or refurbished, land developed, and units built from investments provides valuable insights in relation to the Welsh housing market. Between 2014/15 and 2018/19, 503 investments were made (an investment of £66.7m), creating or refurbishing premises for a total area of 8,794.7 m² and developing 287,869 m² of land. In 2014/15, 390 m² of premises were created or refurbished with 6,400 m² of land developed, with this increasing to 3,544 m² of premises and 159,700 m² of land developed in 2018/19 (Figure 16).

Figure 16.

Premises created and land developed from Development Bank of Wales investments

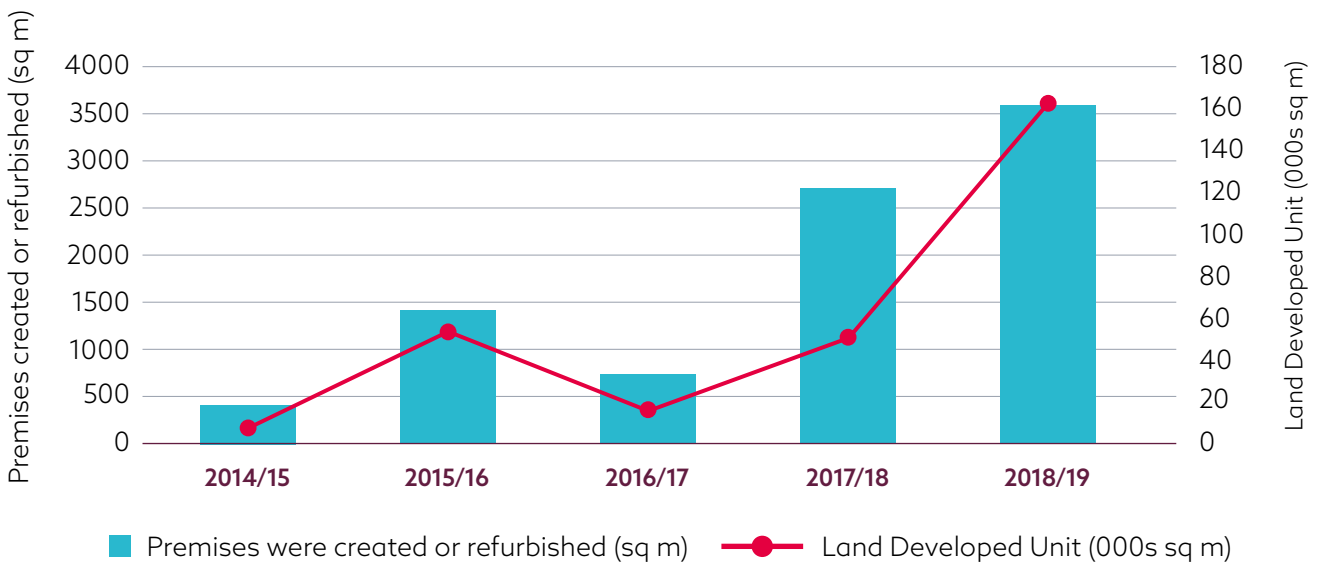
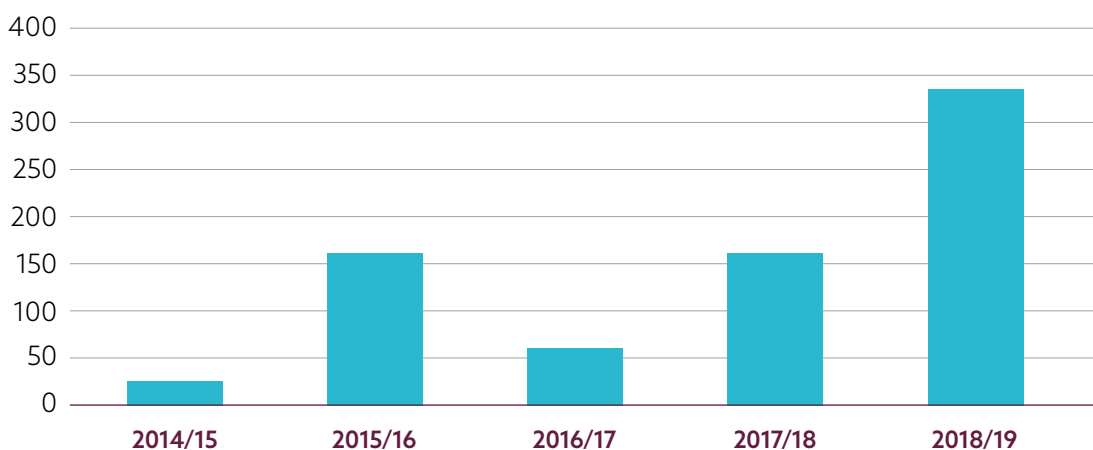


Figure 17 shows that 735 housing units were built from Development Bank of Wales investments between 2014/15 and 2018/19.

Annual numbers have increased markedly from 31 in 2014/15 to 342 in 2018/19.

Figure 17.

Housing units built from Development Bank of Wales investments



These investments are linked to employment creation and safeguarding. The property-related investments created or safeguarded 466 jobs between 2014/15 and 2018/19.

Development Bank of Wales property investments have created 7 jobs per £1 million invested and 0.63 jobs per home unit built between 2014/15 and 2018/19.

There is every indication that the UK and EU economies were going to experience a period of slower economic growth even in the absence of the economic 'shock' caused by the Coronavirus outbreak.

While there was some optimism that poor business investment might be offset in part by stronger consumer spending, this has now been put in jeopardy by the combined impacts of poor weather in the opening months of 2020 and the Coronavirus. This emerging global 'shock' will inevitably impact on the UK and Wales as supply chains and economic activity is disrupted.¹³ At the same time, the national economic context already challenged small business prospects in Wales, particularly with the implementation of the EU transition period.

Future QRs will be investigating the extent to which the poorer economic conditions in the opening months of 2020 feed into SME demands for finance, and underlying investment activity. It will also be interesting to examine trends in the credit risk of SMEs this year, and how far the slowdown affects the level of demand for the finance provided by the Development Bank.

Of interest in terms of context for the supply side of SME finance in Wales will be the development of the structure of regional investment after Brexit. Currently the Welsh Government is publicly consulting on A Framework for Regional Investment in Wales (until May 22nd 2020) and with part of the consultation noting: "that a success in European funding in recent years has been the use of repayable finance to deliver positive and cost effective results." (p17). Welsh Government also reveals that part of the future vision is focused around Productivity and Competitiveness and that an element of expected support will be the continued use of repayable finance where market failures are identified. However, it is likely the Coronavirus outbreak will lead to changes in the regional investment framework and a significant increase in the resources available to assist SMEs.

The QR4 annual report will also provide some evidence on the economic effects associated with different elements of Development Bank activity during 2019/20.

¹³ See <https://www.economist.com/international/2020/02/15/the-new-Coronavirus-could-have-a-lasting-impact-on-global-supply-chains?cid1=cust/ednew/n/bl/n/2020/02/29n/owned/n/n/nwl/n/n/UK/415278/n>

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