

# Economic Intelligence Wales

## *Quarterly report*

**November 2021**

# Contents

|  |           |
|--|-----------|
| <b>Executive summary</b>   | <b>3</b>  |
| <b>1. Introduction</b>   | <b>6</b>  |
| <b>2. UK and regional economic prospects</b>   | <b>7</b>  |
| <b>3. The SME picture in UK and Wales:</b><br>The changing conditions shaping demand for finance | <b>15</b> |
| <b>4. Provision of SME finance and cost of finance</b>   | <b>22</b> |
| <b>5. Development Bank of Wales activity</b>   | <b>27</b> |
| <b>6. Conclusions</b>  | <b>31</b> |
| <b>7. Appendix</b>   | <b>32</b> |

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

- UK GDP, labour market, and business investment indices have all improved in 2021 Q2, amid the reopening of the economy. However, inflationary pressures, supply chain problems and labour market shortages are likely to impact business prospects during the second half of 2021 and beyond.
- The post-pandemic future seems challenging for the smaller SMEs in Wales, facing risks of insolvency, low cash reserves and then increasing credit demand. The proportion of Welsh SMEs using external finance has increased, with many starting to borrow in the pandemic period.
- The Development Bank of Wales invested around £21 million in 2021/22 Q1, creating 280 jobs and safeguarding around 160 jobs.

The beginning of the 2021/22 financial year has been marked by global efforts to end the Covid-19 pandemic, and to address related economic and social impacts. The Covid-19 pandemic and related lockdowns and mitigation measures disrupted economic life and led to an unprecedented economic contraction. UK wide data sets show improvements for the first quarter of 2021/22, leading to more positive forecasts, but these are consistently below pre-pandemic levels.

The Quarterly report published in September 2020 highlighted that the IMF forecasted a 3% contraction of global Gross Domestic Product (GDP) in 2020 with its figures now suggesting it actually reached 3.6%, a decline deeper than in the 2008/09 financial crisis. The IMF now forecasts a significant global recovery in 2021 (6% annual GDP growth, close to the OECD prediction of 5.8%), and further growth in 2022 (4.9%).

IMF forecasts reflect the relative improvement in health outcomes in many wealthier states in the first three quarters of 2021, although the effects on economies and particularly labour markets are more persistent. While the average unemployment rate in OECD countries has declined from 8.8% in April 2020 to 6.6% in May 2021, there are still eight million more unemployed and 14 million more inactive persons than before the beginning of the pandemic in

the OECD states. Despite the strong rebound, pre-pandemic employment levels are not projected to recover before 2023. The OECD projects a 6.5% unemployment rate in 2021.

**This Quarterly report reveals that UK GDP increased by 4.8% in the quarter to 2021 Q2, reflecting the easing of Covid-19 restrictions.** However, UK GDP levels are still below the last pre-pandemic quarter (2019 Q4). **The Bank of England projects that UK GDP will rise by 7.25% in 2021, similar to the May 2021 prediction. The latest available quarterly GDP estimates for Wales for 2020 Q4 show a 0.9% quarterly growth,** following a 14.4% increase in the quarter to 2020 Q3.

Signs of labour market recovery have become more evident. **The UK unemployment rate declined from 4.9% in 2021 Q1 to 4.7% in 2021 Q2, while in Wales the unemployment rate fell from 4.4% in 2021 Q1 to 4.1% in 2021 Q2. The National Institute of Economic and Social Research projects an increase in the Welsh unemployment rate from 4.1% in 2020/21 to 4.9% in 2021/22 and 5.8% in 2022/23.** Whilst the real effects of the pandemic shock on the labour market were expected after the end of the furlough scheme, early indicators show high rates of payroll employment in Wales (compared with pre-pandemic levels) and relatively low numbers of announced redundancies.

# Executive summary

**The record high levels of job vacancies across the UK, together with increasing input costs are likely to hinder business prospects in the second half of 2021 and beyond.** Following a 2.3% contraction in 2021 Q1, UK business investment increased by 2.4% in 2021 Q2, remaining more than 15% below pre-pandemic levels in 2019 Q4.

ONS quarterly experimental statistics on business demography highlight that the number of business deaths in Wales in 2020 Q2 was higher than business births. **The annual comparison reveals signs of dynamism of business population with increases in both business births and deaths. Business births rose by 28% and business deaths in Wales increased by 59% in the year to 2021 Q2, while the UK recorded a similar change in births but smaller increase in business deaths (44%).**

## Welsh SME confidence remains unchanged but positive

Wales saw SME confidence remaining unchanged between 2021 Q1 and 2021 Q2 (+34), this is the third highest across the UK.

**The Business Impacts and Conditions Survey (BICS) for the period from 9 to 22 August 2021 indicated that 99.1% of firms surveyed in Wales continued to trade, the highest rate across the UK regions.** Around 27.5% of responding businesses in Wales reported a fall in turnover for the two weeks preceding the Survey, the fourth highest of any other UK region. **Among Welsh firms that had not permanently stopped trading, almost 37% reported that their cash reserves would last no more than six months.** Although comparisons of the findings from the different rounds of the ONS BICS should be treated with caution, as the samples in each wave of the survey are not the same, the BICS survey for the period 8 to 21 February 2021 indicated that 48% of firms surveyed in Wales had either no cash reserves or cash flow remaining for up to six months of operations.

**The Longitudinal Small Business Survey: Small and medium-sized enterprise (SME) Employers 2020 indicated that almost one in three UK SME owners reported lower levels of employment compared to the previous year. More than half of Welsh SME employers (54%) reported a fall in annual turnover in the previous 12 months, however this was lower than in England and Scotland.** Around four in ten Welsh respondents expected to record increasing sales in the next 12 months, while almost eight in ten expected to increase turnover in the following three years. **The Covid-19 pandemic was identified as the major obstacle to growth in 2020 in Wales (59% of businesses).** Other major obstacles to growth in Wales included staff recruitment and skills, as well as competition in the market. Around 48% of SME employers in Wales reduced their operations, while most Welsh SME employers took action in respect of their workforces during the pandemic with 68% furloughing staff, 52% reducing staff working hours, and 32% providing facilities for remote working.

Ten months have now passed since the end of the Brexit transition period and implementation of the new trade rules between the UK and EU. **Total imports of goods increased from both EU and non-EU countries in the quarter to 2021 Q2, while total exports of goods also recorded a positive quarterly change, driven almost entirely by increasing exports to EU countries.** According to the Welsh international goods trade data, the value of goods exported from Wales was £13.5 billion for the year June 2021, a fall of 13% compared with the year ending June 2020. During the year to June 2021, there was a decrease of almost 12% in the value of exports from Wales to the EU and an almost 15% decrease in non-EU exports. The value of goods imported to Wales was £14.4 billion in the year ending June 2021, down by 10.5% compared to the year ending June 2020. The *Longitudinal Small Business Survey: SME Employers 2020* indicated that the **UK exit from the EU was mentioned as an obstacle to growth by 23% of UK SME employers.**

# Executive summary

**The BVA BDRC SME Finance Monitor 2021 Q2 indicated that around 20% of UK SMEs were using more finance than in the pre-pandemic period, with the proportion in Wales being much higher (27%, the second highest across the UK). Around 11% of SMEs surveyed in Wales started borrowing in the pandemic.** According to *SME Intermediaries Research 2021* by the British Business Bank, 62% of Welsh SMEs reported that they sought external finance support including government grant funding in the last three years. Revealing possible equity funding gaps in the market, 70% of SMEs surveyed in Wales reported that demand for finance exceeds the supply of funding (compared with the UK average of 59%). The *SME Intermediaries Research 2021* found that lack of awareness of available options, access to supply of finance and aversion to taking on finance were the most significant barriers to SME demand in Wales.

The Welsh SME credit risk picture has further improved, following the evidence from previous quarterly reports. **The proportion of Welsh SMEs in the High-Risk group continued to fall amid the reopening of the economy, dropping from 4.5% in May to 4.2% in August 2021, but with the proportions of SMEs in the Caution, Normal, Stable and Secure categories changing little over the same period.**

**In the first quarter of 2021/22, the Development Bank of Wales** made a total of 213 investment transactions linked to 112 deals, down from 225 and 129 respectively in 2020/21 Q4. **The value of new deals made by the Development Bank of Wales during 2021/22 Q1 summed to nearly £20 million**, down from £26.6 million in 2020/21 Q4. Investments in 2021/22 Q2 created 282 jobs and safeguarded 161 jobs.

This is the first *Economic Intelligence Wales Quarterly report* for the 2021/22 financial year. This Quarterly report marks the start of the fourth year of the *Economic Intelligence Wales* project and is published at a time of continued global efforts to end the Covid-19 pandemic and to address related economic and social impacts. These efforts are based on vaccination rollouts, and policies to address the significant economic implications deriving from the mitigation measures and lockdowns that disrupted economic and social activity. Forecasts for economic recovery reflect the relative improvement in health outcomes in many developed states in the first three quarters of 2021, although the effects on economies and labour markets are likely to be more persistent.

Sections 2-4 of this report provide the UK and Welsh macroeconomic context within which Welsh SMEs operate and analyses the impact of Government support on firms. The report then examines factors relating to the demand for, and supply and cost of small and medium-sized enterprise (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 5 summarises the activities of the Development Bank of Wales in the context of factors affecting the demand and supply of finance to SMEs in Wales.

### **This section examines:**

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

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. Economic data relating to Covid-19 effects and interventions can change quickly. Hence establishing a timely economic picture of impacts across the Welsh SME landscape is particularly challenging.

- Following the UK's largest annual economic contraction on record in 2020, the UK economy grew in the quarter to 2021 Q2. However, UK GDP is still below pre-pandemic levels.
- Signs of a recovery in UK labour markets became stronger during the second quarter of 2021. While the end of the furlough scheme presents a challenge for some firms, the data shows that the notifications for UK redundancies in September were relatively low, whilst the number of payroll employees in Wales in August 2021 was slightly above pre-pandemic levels. There were a record number of vacancies across the UK in the period June to August 2021.
- While some indicators suggest an improved economic outlook for the UK and Welsh economies in the second half of 2021, there is still a great deal of uncertainty around economic forecasts, and with supply chain problems and inflationary pressures becoming more significant.

The beginning of the 2021/22 financial year has been marked by the global efforts to end the Covid-19 pandemic, and to address the related economic and social impacts. These efforts are based on vaccination rollouts, and policies to address the significant economic implications deriving from the mitigation measures and lockdowns that disrupted economic and social activity.

In the aftermath of the global economic contraction in 2020 (a 3.6% decline in Gross Domestic Product (GDP), the IMF forecast<sup>1</sup> was for a significant recovery in the global economy in 2021 (6% annual GDP growth, this being close to the OECD prediction of 5.8%) and further growth in 2022 (4.9%).

Forecasts for growth reflect the relative improvement in health outcomes in many developed states in the first three quarters of 2021, although the effects on economies and particularly labour markets are more persistent. While the average unemployment rate across OECD countries has declined from 8.8% in April 2020 to 6.6% in May 2021, there are still eight million more unemployed and 14 million more inactive persons than before the beginning of the pandemic.<sup>2</sup> Despite the strong rebound, pre-pandemic employment levels are not projected to be reached before 2023, with the OECD forecasting a 6.5% unemployment rate for 2021.

<sup>1</sup> <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021>

<sup>2</sup> <https://stats.oecd.org/index.aspx?DataSetCode=EO>

Rising inflation has become a key issue in many economies due to the surge in demand as economies have re-opened and with pressures on transportation and raw materials' costs. The OECD forecasts a 3.6% annual increase in consumer price inflation in the USA, 2.3% in the UK and 2.1% in the Euro area in 2021.<sup>3</sup> The ONS recorded a 3.2% increase in the UK consumer price index in the year to August 2021, up from 2% in July.<sup>4</sup> This is the largest ever recorded increase in this 12-month inflation rate series, although the ONS note this increase is partly related to the discounted prices in cafes and restaurants in the previous August (from the Eat Out to Help Out scheme) which lowered the base rate for the calculation when using this particular 12-month period. Hence this is considered likely to be a temporary effect.

However, the Bank of England have suggested that *'CPI inflation is expected to rise further in the near term, to slightly above 4% in 2021 Q4, owing largely to developments in energy and goods prices.'*<sup>5</sup> There are still high levels of uncertainty around economic forecasts, and the IMF highlight the significant divergence in prospects between most advanced economies and those emerging and developing economies, largely linked to differing access to vaccines.

## UK GDP increased in the quarter to 2021 Q2.

GDP figures reveal a partial recovery of the UK economy, but which has not yet returned to pre-pandemic levels. Following the UK's largest annual economic contraction on record (9.9% decline in 2020) and a GDP fall of 1.5% in 2021 Q1, the UK economy grew by 4.8% in the quarter to 2021 Q2, reflecting the easing of Covid-19 restrictions. However, UK GDP is still 4.4% below the last pre-pandemic quarter (2019 Q4).<sup>6</sup> The improved UK GDP performance in 2021 Q2 was replicated in Germany, Spain, France, the USA and the Netherlands, with the UK recording the strongest growth.

In sharp contrast to the quarterly fall in 2021 Q1 (4.6% decline), household consumption recorded a 7.3% positive growth in 2021 Q2, driven by the easing of coronavirus restrictions. However, household consumption is still 7% lower than in 2019 Q4. Following a similar pattern, government consumption was crucial for quarterly GDP recovery, growing by 6.1%, this mainly driven by education and health services' consumption.

<sup>3</sup> [www.oecd.org/economic-outlook](http://www.oecd.org/economic-outlook)

<sup>4</sup> [www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest](http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest)

<sup>5</sup> [www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/sepember-2021](http://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/sepember-2021)

<sup>6</sup> [www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/apriltojune2021](http://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/apriltojune2021)



## UK business investment increased in 2021 Q2.

Investment growth was recorded among UK businesses, although uncertainty remains high. Following a 2.3% contraction in 2021 Q1, UK business investment increased by 2.4% in 2021 Q2, although remaining over 15% below the pre-pandemic levels of 2019 Q4. According to the Bank of England *Monthly Decision Maker*<sup>7</sup>, respondents perceiving the level of economic uncertainty as high fell from 68% in December 2020 to 57% in February and to 50% in June 2021, which marks the lowest level since

February 2020. Covid-19 was the largest source of uncertainty for 25% of the respondents, falling from 32% of respondents in May 2021. However, the economic environment remains volatile. While the Bank of England improved its forecast for the annual growth of UK business investment from 4% to 7% for 2021 in the Monetary Policy Report published in May 2021, it downgraded its projections from 7% to 3% in the Monetary Policy Report published in August 2021.<sup>8</sup>

## Output in all main sectors grew in the second quarter.

Following a 2.1% contraction in 2021 Q1, output in UK services increased by 5.7% in the quarter to 2021 Q2, being 3.5% below the pre-lockdown 2019 Q4 level. Key contributors were accommodation and food service activities (87% growth), following the easing of Covid-19 restrictions, education (19.4%) as well as wholesale and retail trade (12.8%).

Production output also recorded positive quarterly growth in 2021 Q2, although weaker than services (0.5%, remaining 3.5% below the pre-pandemic levels). Construction also experienced a positive growth of output in the quarter to 2021 Q2 (3.3%), following a quarterly increase of 2.6% in 2021 Q1. The growth in 2021 Q2 reflects an increase in new work (3.7%). Construction has almost recovered to pre-pandemic levels, being just 0.6% below the output in 2019 Q4.

<sup>7</sup> [www.bankofengland.co.uk/decision-maker-panel/2021/june-2021](https://www.bankofengland.co.uk/decision-maker-panel/2021/june-2021)

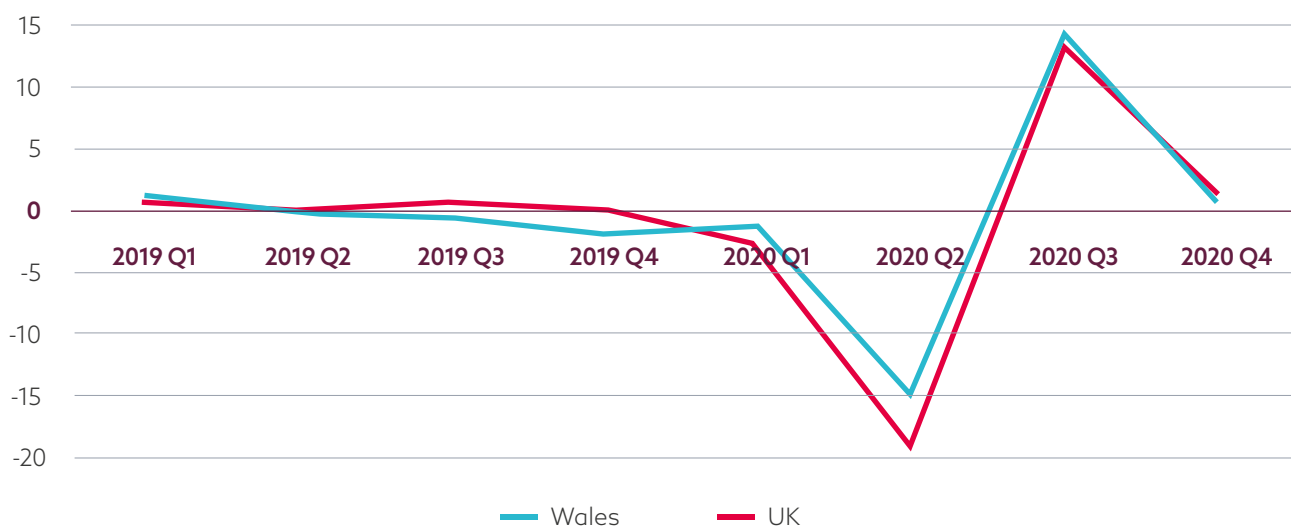
<sup>8</sup> [www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/august/monetary-policy-report-august-2021.pdf](https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/august/monetary-policy-report-august-2021.pdf)

## Welsh GDP increased in 2020 Q4.

GDP figures have been a little better in Wales than in the UK economy since the beginning of the pandemic. The effects of Covid-19 are captured by quarterly (experimental) GDP estimates for Wales.<sup>9</sup> The latest available figures, show a 0.9% quarterly growth for 2020 Q4, following a 14.4% increase in the quarter to 2020 Q3 and a 15.2% contraction in 2020 Q2.<sup>10</sup>

Figure 1 shows the broadly similar profile of UK and Welsh GDP growth in recent quarters. Before the pandemic the Welsh economy lagged slightly behind the UK in terms of GDP quarterly growth, however between 2020 Q1, and 2020 Q3 quarterly growth of GDP in Wales was slightly above that of the UK, with growth rates converging in the final quarter of 2020.

**Figure 1.**  
GDP quarterly percentage change



Source: [ONS, 2021](#)

<sup>9</sup> These figures should be treated with caution due to the potential volatility of the data.

<sup>10</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/octobertodecember2020>

## UK unemployment falls in 2021 Q2.

The UK Government Covid-19 financial support schemes have significantly supported employment, preventing a large decline of the national labour market.<sup>11</sup> According to the *Labour Force Survey*,<sup>12</sup> the signs of recovery of labour markets have become stronger during the second quarter of 2021. The UK employment rate increased from 74.8% in 2021 Q1 to 75.1% in 2021 Q2, and the unemployment rate fell from 4.9% to 4.7%.<sup>13</sup> Redundancy rates have been declining since the latter part of 2020, and for the period between April and June 2021, the redundancy rate fell to 3.6 per 1,000 employees, just below the pre-pandemic level<sup>14</sup>. The real challenges for labour market resilience were anticipated after the end of the job retention scheme, which had been extended to the end of September 2021. However, early insights from Insolvency Service statistics show that notifications for redundancies in September were around 14,000, the second lowest since January 2020 and less than a fifth compared to the same period a year before.<sup>15</sup>

The employment rate in Wales stood at 74.2% in 2021 Q2, below the UK average of 75.1%. The employment rate in Wales in 2021 Q2 was just below pre-pandemic 2019 Q4 levels of 74.4%. The unemployment rate in Wales was 4.1% in 2021 Q2, below the UK average of 4.7%<sup>16</sup>. According to Pay as You Earn Real Time Information, the number of payroll employees in Wales in August 2021 were similar to pre-pandemic levels (1.27 million, compared to 1.26 million in February 2020).<sup>17</sup> In addition, for the period June to August 2021, the number of UK job vacancies exceeded 1 million for the first time since records began in 2001, and were almost 250,000 above pre-pandemic levels. Compared to the previous quarter, vacancies increased across all UK industries and size bands of firms. Transport and storage, and accommodation and food were amongst the sectors with the highest rates of quarterly growth in vacancies.<sup>18</sup> Labour shortages across a number of sectors are likely to hinder the economic prospects for many SMEs in Wales.

<sup>11</sup> <https://www.beaurost.com/blog/government-covid-business-support-analysis>

<sup>12</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest>

<sup>13</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/impactoffreweightingonlabourforcesurveykeyindicatorsuk/2020>

<sup>14</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/redundancies/timeseries/beir/lms>

<sup>15</sup> <https://www.gov.uk/government/news/quarter-of-million-left-furlough-in-august-as-redundancies-hit-seven-year-low>

<sup>16</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionalabourmarket/august2021>

<sup>17</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

<sup>18</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/september2021>

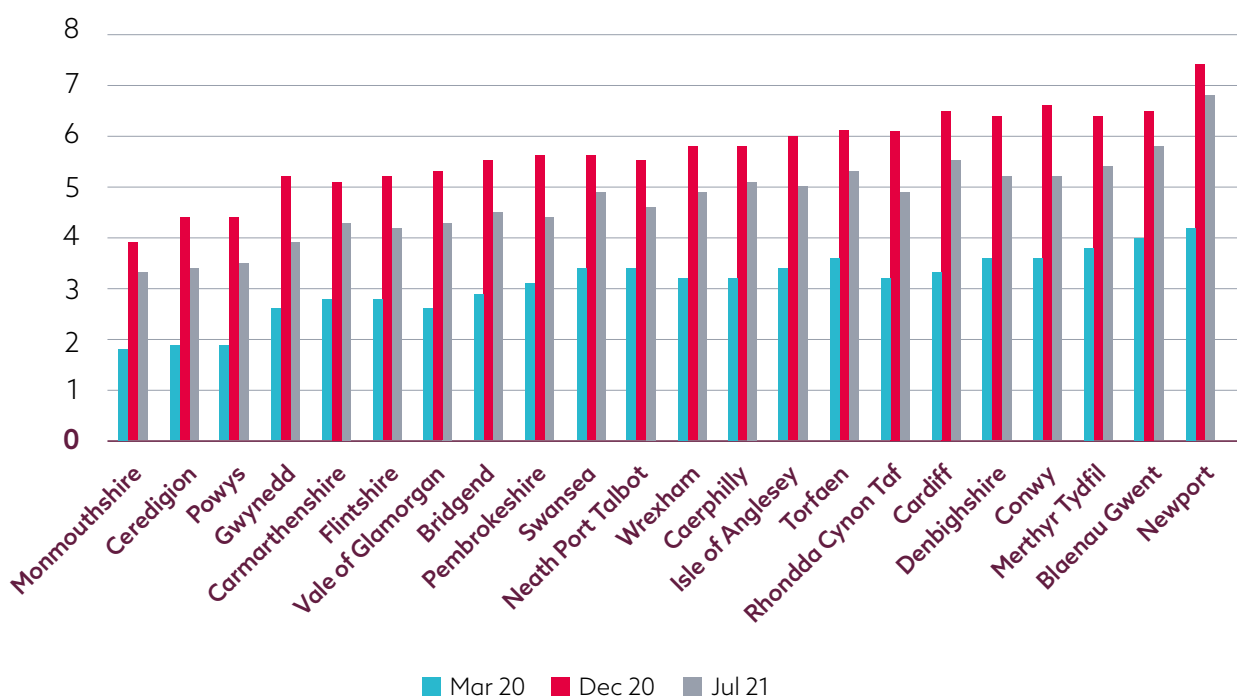
## A decrease in the number of unemployment benefit claimants in July 2021.

The UK unemployment-related benefit claimant count increased from 2.59 million in January to 2.65 million in April, but then declined to 2.26 million in July 2021.<sup>19</sup> UK benefit claimants fell by 0.4 million in the year to July 2021. In July 2021, 93,175 people in Wales claimed unemployment-related benefits (equal to 4.8% of the working age population), down from 110,400 in April 2021 and 109,000 in January 2021.

According to the latest available data for July 2021, the Welsh areas with the highest proportion of working age population claiming unemployment-related benefits were Newport (6.8%), Blaenau Gwent (5.8%) and Cardiff (5.5%), and with the lowest proportion, Powys (3.5%), Ceredigion (3.4%) and Monmouth (3.3%) (Figure 2). Caution is needed in any interpretations here, as the underlying trend cannot yet be established with the furlough scheme only recently ending.

**Figure 2.**

*Proportion of working age people claiming unemployment-related benefits by Welsh local authority*



Source: [ONS, 2021](https://www.ons.gov.uk)

<sup>19</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental>

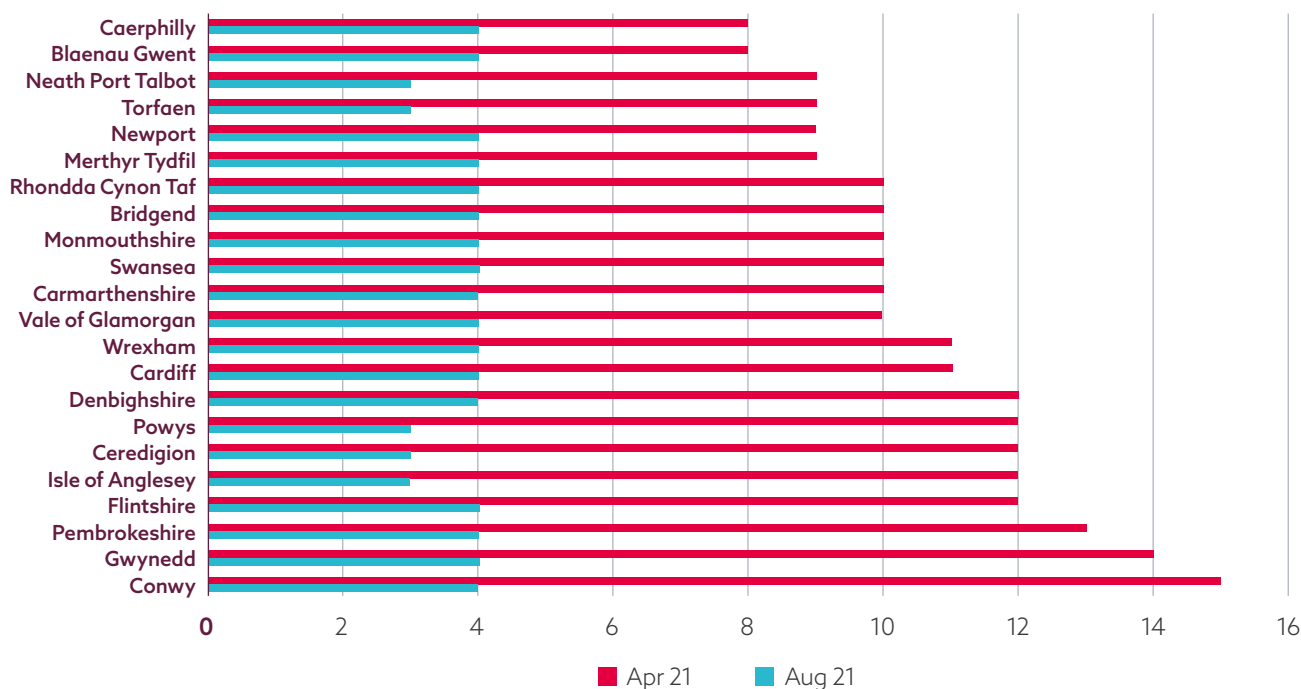
## Major decline in furloughed jobs.

Amid the reopening of the economy, the number of UK furloughed jobs fell significantly. UK furloughed jobs dropped from around five million in January to 4.3 million at the end of April and further to 1.9 million by the end of June 2021. Provisional data suggests the number of UK employments on furlough was around 1.3 million at the end of August.<sup>20</sup> Almost 11.7 million jobs had been supported in total through the Coronavirus Job Retention Scheme by mid-September 2021, with the total cumulative value of furlough claims in the UK rising from £64 billion in May to £69.3 billion by mid-September 2021.

Wales had one of the largest decreases in furloughed jobs across the UK. Employments furloughed declined from 183,400 at the end of January to 134,700 at the end of April and further to 36,000 on 31 August 2021, equal to around 4% of total Welsh employments eligible for furlough (down from 10% in April). Some caution is needed in interpreting local and regional furlough figures because they are based on the employees' residential address information, thus not capturing commuting effects i.e. an employee's workplace could be in a different region. Figure 3 shows a reduction in furlough take-up rate in all local authorities from April to August 2021, with take up rates in all local authority areas ranging from 3% to 4% by the end of August.

**Figure 3.**

*Furlough scheme take-up rate across Welsh local authorities, as of 30 April and 30 July 2021 (% of eligible employment)*



Source: [UK Government](#)

<sup>20</sup> <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-7-october-2021/coronavirus-job-retention-scheme-statistics-7-october-2021>

## UK and Welsh economy forecasts.

The Bank of England forecasts that UK GDP will rise by 7.25% in 2021. The Bank also forecasted a 4.75% unemployment rate in 2021 (down from 5% as projected in May), before falling to 4.25% in 2022.

In their Summer *UK Economic Outlook*, the National Institute of Economic and Social Research (NIESR) forecasted that Wales, alongside the North East, Yorkshire & Humber and Northern Ireland, will not have recovered to pre-pandemic levels of GVA by 2024 Q4.

GVA in Wales in 2024 Q4 is projected to be 0.5% below the 2019 Q4 level.<sup>21</sup> However, Wales is forecasted to have the most robust employment growth among the devolved administrations. According to NIESR, employment in Wales is projected to have exceeded 2019 Q4 levels by the end of 2022. By contrast, NIESR forecasts a 4.1% unemployment rate in Wales in 2020/21 (3.9% in the UK), 4.9% in 2021/22 (5.1% in the UK), and 5.8% in 2022/23 (5.3% in the UK).

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<sup>21</sup> [https://www.niesr.ac.uk/sites/default/files/publications/UK%20outlook%20Summer%202021\\_0.pdf](https://www.niesr.ac.uk/sites/default/files/publications/UK%20outlook%20Summer%202021_0.pdf)

- There was an increase in both business births and deaths in Wales in the year to 2021 Q2, although both business births and deaths fell during the quarter to 2021 Q2.
- Improving business conditions are reflected in recent survey results for 2021 Q2 of an increase in the number of UK and Welsh SMEs planning to grow, while the UK and Welsh Small Business Confidence Indices remained positive.
- The UK's exit from the EU was an obstacle to growth for one in five SMEs in the UK and Wales. In addition, more than six in ten Welsh businesses faced extra costs since the end of the EU transition period.

### Small firms' confidence remains positive.

The UK Small Business Index<sup>22</sup> remained positive for the second consecutive quarter in 2021 Q2. Following the fall from -5 in 2020 Q2 to -32 in 2020 Q3 and further to -49 in 2020 Q4, the Index rebounded to +27 in the quarter to 2021 Q1 but slightly declined to +18 in 2021 Q2<sup>23</sup>. The reopening of the economy has contributed to an increase in costs, with 53% of SMEs surveyed stating that they have faced a rise in overall costs of operation compared with the previous quarter. The main causes cited for the change in business costs were inputs (this category was selected by 43% of respondents) and labour costs (selected by 36% of respondents).

#### UK small business confidence index remains positive in all sectors in 2021 Q2

Sectors that have faced severe lockdown restrictions and demand contractions had the most impressive quarterly growth, these being hospitality (confidence index of +64 from +15 in 2021 Q1) and leisure (+29 from +7).

<sup>22</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, 2020).

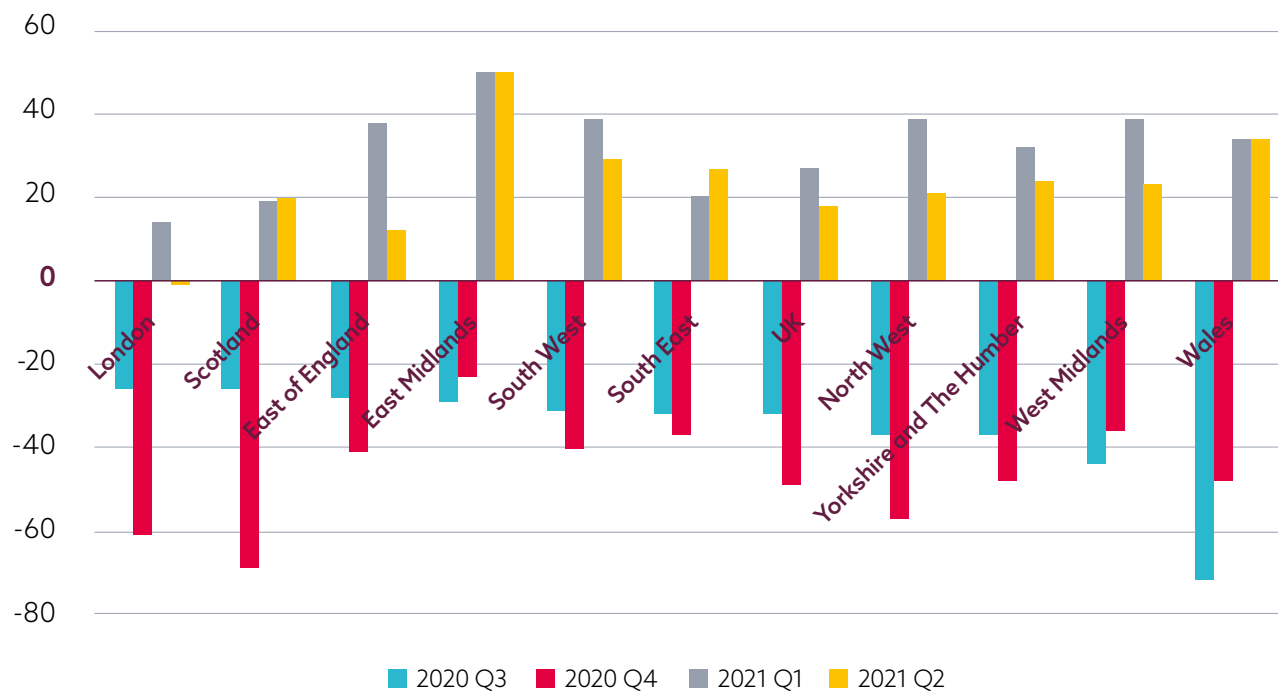
<sup>23</sup> FSB (2021). FSB voice of small business index, Quarter 2 2021. Available at: <https://www.fsb.org.uk/resource-report/sbi-q2-2021.html>

### Welsh SME confidence in 2021 Q2 remains positive but unchanged.

FSB reported that SME confidence in Wales remained unchanged in 2021 Q2. Wales saw SME confidence rebounding from -48

in 2020 Q4, the fourth lowest in the UK, to positive territory (+34) in 2021 Q1 and remaining at the same level in 2021 Q2.

**Figure 4.**  
Small Business Index, UK regions, 2020 Q3-2021 Q2



Source: [FSB Voice of Small Business Index 2021Q2](#)

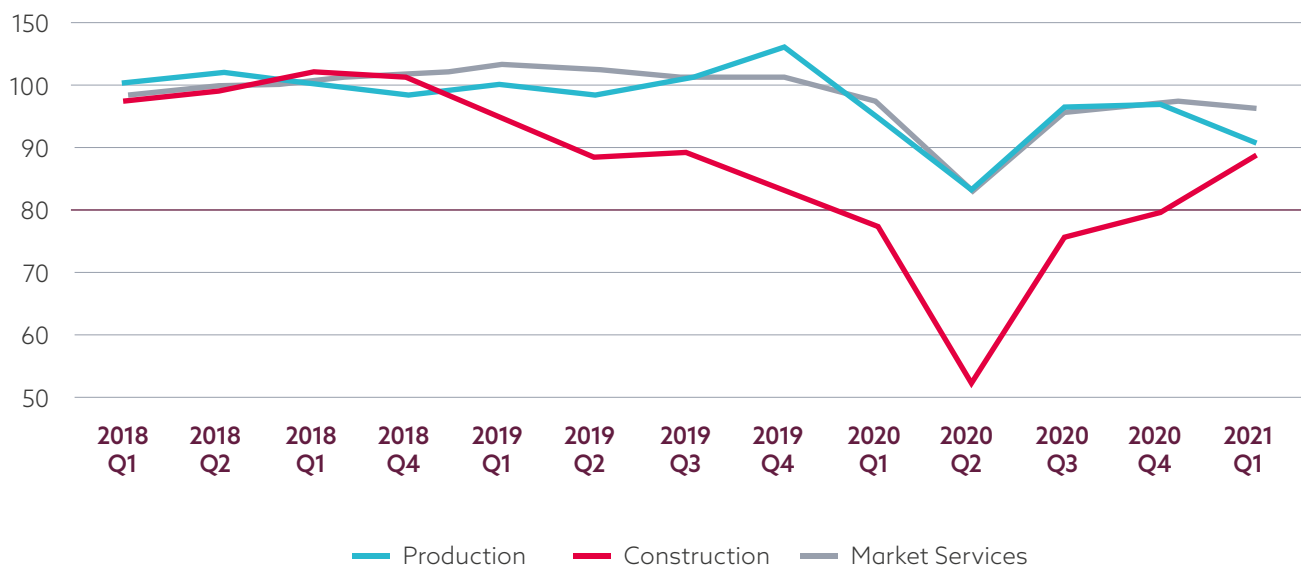


### Output growth across production and market services sectors was negative in 2021 Q1.

Output in the construction industry continued to recover in 2021 Q1, while production and market services recorded negative growth. Figure 5 illustrates the quarterly movement in Welsh indices of output in production, construction and market services from 2018 Q1 to 2021 Q1. The index of market services fell slightly from 96.8 in 2020 Q4 to 96.3 in 2021 Q1. The index of production also declined, falling from 96.9 in 2020 Q4 to 91.1 in 2021 Q1.

Within the manufacturing sector, the lockdown restrictions particularly affected other manufacturing and repair, and the coke and refined petroleum products sectors, with output in these sectors decreasing sharply during the first quarter of 2021. The construction index, which was severely affected by forced halts made in large projects during lockdown in the first half of 2020, continued its recovery, the index reaching a value of 88.5 in 2021 Q1, up from 79.5 in 2020 Q4.

**Figure 5.**  
*Welsh output indices: trends 2018 Q1 - 2021 Q1 (2018 =100)*



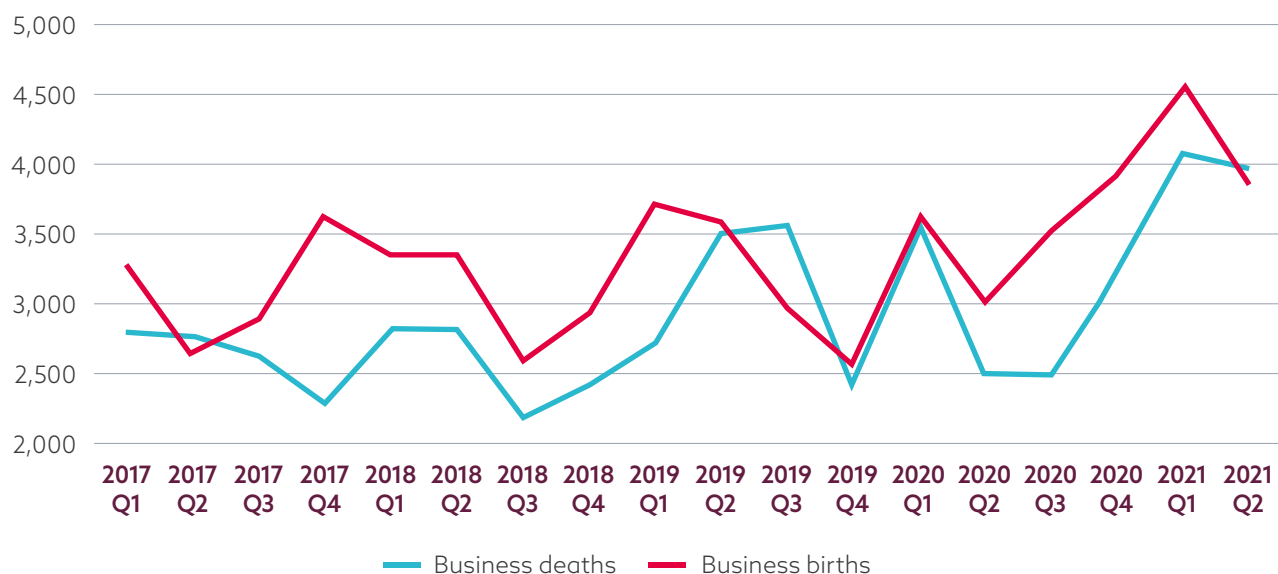
Source: Stats Wales, [Welsh Indices of Production and Construction \(2018=100\) by section and year](#) and [Index of Market Services \(2018=100\) by year and area](#)

### Increase in business births and deaths in the year to 2021 Q2.

Figures provided from ONS indicate that UK business births increased by 28% from 75,585 in 2020 Q2 to 96,895 in 2021 Q2. The number of business deaths rose by 44% from 73,580 in 2020 Q2 to 105,455 in 2021 Q2, 20% higher than the average of business closures in the second quarter of the calendar years from 2017 to 2020, highlighting the implications of the pandemic and lockdown measures on the business economy.<sup>24</sup> According to Beauhurst,<sup>25</sup> the UK Government’s intervention was more effective and quicker than in the period of the 2008 global economic crisis. Between 2008 and 2009, the number of business incorporations rose by 4%, while business deaths increased by over 120% (around 53,000 firms were shut down). Around 780,000 business births were recorded in 2020, 13% higher than in 2019, while business deaths declined by 26% between 2019 and 2020.

Wales follows a similar trend compared to that of the UK, since both business births and deaths recorded annual increases in 2021 Q2. Business births rose by 28% in the year to 2021 Q2, increasing from 3,005 in 2020 Q2 to 3,860 in 2021 Q2. Business deaths in Wales increased by 59% in the year to 2021 Q2, rising from 2,490 in 2020 Q2 to 3,950 in 2021 Q2. Figure 6 illustrates the difference between business deaths (3,950) and business births (3,860) in 2021 Q2, highlighting that the increasing trend of both business births and deaths since 2020 Q3 (and with births exceed deaths) changed in 2021 Q2 with business deaths now marginally above births. Figure 6 does however also illustrate the volatility of this data.

**Figure 6.**  
*Quarterly business births and deaths in Wales*



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

<sup>24</sup> <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticsuk>

<sup>25</sup> <https://www.beauhurst.com/blog/government-covid-business-support-analysis/>

The *Business Impacts and Conditions Survey (BICS)*,<sup>26</sup> for the period from 9 to 22 August 2021 indicated that 99.1% of firms surveyed in Wales continued to trade, the highest rate of the UK regions. Around 27.5% of responding businesses in Wales reported a fall in turnover for the last two weeks leading up to the Survey, compared to normal expectations for this time of year. Among Welsh firms that had not permanently stopped trading, almost 37% reported that their cash reserves would last no more than six months. Although comparisons of the findings from the different rounds of the ONS BICS should be treated with caution as the samples in each wave of the survey are not the same, the BICS survey for the period 8 to 21 February indicated that 48% of firms surveyed in Wales had either no cash reserves or cash flow remaining for up to six months of operations. However, 69% of responding businesses from the 9 to 22 August survey were highly confident that they will survive the next three months.

The *Trade Survey for Wales 2019*<sup>27</sup> described the trade context of the Welsh economy before the beginning of the pandemic. Around 8,000 Welsh firms participated in the survey. The total value of sales from firms located in Wales was £105.3bn. Just over half of sales from Welsh firms went to customers in Wales, 25% to other parts of the UK, 15% to the rest of the EU and 3% to the rest of the world. Across the size bands, 6% of small firms' sales were made internationally, compared to 20% of medium-sized and 24% of large businesses' sales. The total value of purchases by firms operating in Wales was £66.9bn.

Around £31 billion of purchases were made by SMEs. One out of three transactions came from customers in Wales, 41% from other parts of the UK, 8% from the rest of the EU and 6% from the rest of the world. Around 12% of purchases from small businesses were imports. Half of the small businesses' imports were from the EU, compared to 55% of large and 75% of medium-sized firms' imports.

The *Longitudinal Small Business Survey: SME Employers 2020*<sup>28</sup> was the first comprehensive survey conducted for SMEs during the Covid-19 pandemic. The survey covered the period September 2020 to April 2021, and included responses from 5,600 UK SMEs.

Almost one in three UK SME owners responding to the Longitudinal Small Business Survey reported lower levels of employment than a year previously. More than half of UK SME employers (56%) reported a fall in annual turnover in the previous 12 months, with Wales recording a rate of 54%.

As expected, the major obstacle to growth in 2020 related to the Covid-19 pandemic in the UK (71% of all respondents) and Wales (59%). The second most important obstacle to growth in Wales was staff recruitment and skills (38% of Welsh respondents). Competition in the market was found to be the third most significant barrier in Wales (33%). Most of the Welsh SME employers took specific actions in respect of their workforces during the pandemic with 68% furloughing staff, 52% reducing staff working hours, and 32% providing facilities for remote working (lower than the UK average of 37%).

<sup>26</sup> <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

<sup>27</sup> <https://gov.wales/trade-survey-wales-2019.html>

<sup>28</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1010738/LSBS\\_2020\\_SME\\_Employers.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1010738/LSBS_2020_SME_Employers.pdf)

The *BVA BDRC SME Finance Monitor* for 2021 Q2<sup>29</sup> revealed that around 56% of responding UK SMEs stated that income was stable or increased, up from 32% in 2020 Q4. More than half of responding SMEs (52%) planned to grow (up from 42% in 2020 Q4) since they believed that the 'future offers opportunities' (32% of SMEs surveyed, up from 24%). In Wales, the proportion of responding SMEs planning to grow increased from 31% in 2020 Q2 to 47% in 2020 Q4 and further to 49% in 2021 Q2.

Business conditions seem to have improved in the year to 2021 Q2. In 2020 Q2, two in ten responding UK SMEs expected a significant decline in income, compared with six in ten UK SMEs in 2020 Q2. The proportion of UK SMEs reporting growth for 2021 Q2 was just 15%, up from 13% in 2021 Q1, but below the 2020 Q2 levels (34%). Just 5% of respondents in the hospitality sector reported growth in 2021 Q2. Agriculture (21%) and business service activities (20%) saw the highest proportion of SMEs reporting growth in 2021 Q2.

According to the *BVA BDRC SME Finance Monitor* for 2021 Q2 the Covid-19 pandemic remained the most significant barrier to running the business in the next 12 months, although much lower than a year earlier (45% in 2021 Q2 compared to 68% in 2020 Q2). Only six in ten responding UK SMEs reported a profit in 2021 Q2, marking the lowest level seen to date in the SME Finance Monitor reports, and well below the pre-pandemic 2019 level (82%).

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<sup>29</sup> <https://www.bva-bdrc.com/wp-content/uploads/2021/08/SME-charts-Q2-2021-FINAL-all.pdf>

### The EU transition continues.

Ten months have now passed since the end of the transition period and implementation of the new trade rules between the UK and EU. Total UK imports of goods increased by 12.4% in the quarter to 2021 Q2,<sup>30</sup> due to quarterly growth of imports from both EU (12.3%) and non-EU countries (12.6%). Total exports of goods also recorded a positive quarterly change of 12.5% in 2021 Q2, driven almost entirely by increasing exports to EU countries, which increased by 26.3% in the quarter to 2021 Q2. The growth in exports to the EU was particularly strong in the chemicals sector. The ONS have suggested that this is 'likely linked to the coronavirus (Covid-19) vaccination effort which picked up significantly across Europe in April, May and June 2021'<sup>31</sup>.

According to the Welsh international goods trade data,<sup>32</sup> the value of goods exported from Wales was £13.5 billion for the year June 2021, a fall of 13% compared with the year ending June 2020. Of this total value, 62% of exports from Wales were to the EU. During the year to June 2021, there was a decrease of almost 12% in the value of exports from Wales to the EU and an almost 15% decrease in non-EU exports.

The value of goods imported to Wales was £14.4 billion in the year ending June 2021, down by 10.5% compared to the year ending June 2020. This decline relates to a fall in imports from non-EU countries of 18.3%, with imports from the EU increasing by 2.8%.

Some initial post-Brexit trading trends for SMEs have emerged. The *Longitudinal Small Business Survey: SME Employers 2020*<sup>33</sup> found that the UK's exit from the EU was mentioned as an obstacle to growth by 23% of UK SME employers. Around 20% of UK SME employers exported goods or services abroad in 2020, a rate almost unchanged since 2012. Medium-sized companies were more export oriented: 29% of medium-sized SME owners exported in 2020, compared to 24% of small and 18% of micro-enterprises.

The BICS survey for the period between 9 and 22 August 2021<sup>34</sup> showed that around 7% of responding Welsh firms had made changes to their supply chains during the Brexit transition period, with almost 57% deciding to use more UK suppliers. The new UK-EU trade agreement was the main cause for these changes for half of the responding Welsh businesses. More than six in ten responding Welsh businesses faced extra costs because of the end of the EU transition period (being above the UK average that was 56%).

<sup>30</sup> <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/june2021>

<sup>31</sup> See section 4: <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/june2021>

<sup>32</sup> <https://gov.wales/welsh-international-goods-trade-july-2020-june-2021>

<sup>33</sup> <https://www.gov.uk/government/statistics/small-business-survey-2020-businesses-with-employees>

<sup>34</sup> <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

- The use of external finance for SMEs in the UK and in Wales increased during 2021 Q2 with small businesses more likely to use external finance than micro and medium-sized businesses.
- The average interest rates on UK SME loans fell during 2021 Q2.
- Government policies supporting firms and jobs have contributed to an extended improvement in the credit risk picture in Wales in the last 15 months.

The supply side for Welsh SME finance and funding has changed rapidly as a result of targeted

interventions to assist firms impacted by Covid-19.

## SME demand for credit was subdued in 2021 Q2.

The Bank of England *Agents' summary of business conditions*<sup>35</sup> indicates that SME demand for credit was subdued in 2021 Q2, driven by the reopening of economic activity and reflecting a higher cash flow in the second quarter of the year. There are signs of modest improvement of credit availability, although credit conditions remained tight for businesses in sectors most impacted by the pandemic. It was also reported that the level of loan applications to the UK Government's new Recovery Loan Scheme (RLS) is low<sup>36</sup>, possibly driven by the improvement of business confidence and the tighter conditions associated with the new scheme.

According to BICS from 9 and 22 August 2021, debt repayments had increased during August for around 24% of Welsh respondents. Almost 3% of responding businesses expected repayments to further increase, while seven in ten Welsh firms surveyed are highly confident that they will meet their debt obligations. However, the risk of default remains high. Around 8.7% of surveyed Welsh companies indicated a moderate risk of insolvency in the BICS survey, the highest among the UK regions.

According to the *BVA BDRC SME Finance Monitor for 2021 Q2*, the use of external finance for UK SMEs increased. Specifically, responding UK SMEs that use external finance rose from 40% in 2020 Q3 to 44% in 2020 Q4 and further to 45% in 2021 Q2. Small firms were found to use external finance much more than micro and medium-sized businesses (65% compared with 57% and 35% respectively). Similarly, SMEs in Wales using external finance has risen from 41% in 2020 Q3 to 57% in 2021 Q2 and small businesses were also more likely to use external finance than micro and medium sized businesses (67% compared to 47% and 53% respectively).

During 2021 Q2, almost 21% of the responding UK SMEs that used finance stated they were using more finance now than pre-pandemic, with the proportion in Wales being much higher (27%, the second highest across the UK, below North East). Around 11% of SMEs surveyed in Wales started borrowing in the pandemic.

<sup>35</sup> <https://www.bankofengland.co.uk/agents-summary/2021/2021-q2>

<sup>36</sup> <https://www.bankofengland.co.uk/agents-summary/2021/2021-q2>

The *BVA BDRC SME Finance Monitor 2021 Q2* indicated that the appetite for future finance has increased for UK SMEs. The need for finance increased from 3% in 2019 to 9% in 2020 and further to 15% in the first half of 2021, rising across all the size bands apart from medium-sized businesses. In Wales, nearly 10% of SMEs indicated that they have plans to borrow or renew finance in the next three months, with this also increasing by size and medium-sized businesses being the exception. Seventeen per cent of Start-ups in Wales were planning to borrow or renew finance in the next three months, the highest amongst any business age group, up from 13% in 2019 but down from 21% in 2020.

Around 37% of responding UK SMEs stated that they are happy to use external finance to help the business grow in the first half of 2021, up from 33% in 2020. The vast majority of SMEs in Wales (87%) were basing their growth plans on what they could afford in 2021 Q2, with 84% willing to accept a slower growth rate than take on more finance. However, like UK SMEs, a growing minority are happy to consider using finance to achieve their growth plans in 2021 Q2 (47%).

The proportion of UK SMEs surveyed that use external finance was 45% in 2019, but then fell to 32% in the first half of 2020 and across all size bands. Some 44% of responding UK SMEs used external finance in 2020 Q4, 42% in 2021 Q1 and 45% in 2021 Q2, and with this driven by Government-backed loans and grants. Across UK SMEs, 40% reported the injection of personal funds, which is the highest ever recorded in the survey. Similarly for SMEs in Wales, the use of grants has risen from 8% in 2020 Q3 to 18% in 2021 Q2 but this has corresponded with a drop from 20% in 2020 Q3 to 8% in 2021 Q2 of SMEs in Wales that have had injections of personal funds into the business from owners/directors.

According to the British Business Bank *SME Intermediaries Research 2021*<sup>37</sup>, 62% of Welsh SMEs reported that they had sought external finance support including government grant funding in the last three years. Moreover 70% of SMEs surveyed in Wales reported that demand for finance exceeded the supply of funding (compared with a UK average of 59%). Around 80% of Welsh respondents reported that they are not well-equipped to achieve reductions of their debt burden in the next 12-18 months (compared to 69% in the UK), and with 30% being concerned about making debt repayments (UK average, 19%) with similar levels of Wales respondents to the *BVA BDRC SME Finance Monitor for 2021 Q2* (25%) reporting the same concerns. The findings from the *SME Intermediaries Research 2021* contrast slightly with the BICS findings noted above regarding the levels of confidence in meeting debt repayments. The surveys cover different time periods, and the *SME Intermediaries Research 2021* contains very small sample sizes for Wales.

The *SME Intermediaries Research 2021* also reported that a lack of awareness of available options, access to supply of finance and aversion to taking on finance were the most significant barriers to SME demand in Wales. This is supported by the *BVA BDRC SME Finance Monitor for 2021 Q2* findings that 47% of SMEs in Wales planning to borrow in the next three months were confident that their bank would approve an application, with 39% of SMEs with growth plans feeling the same but only 7% report looking for finance providers other than their main bank.

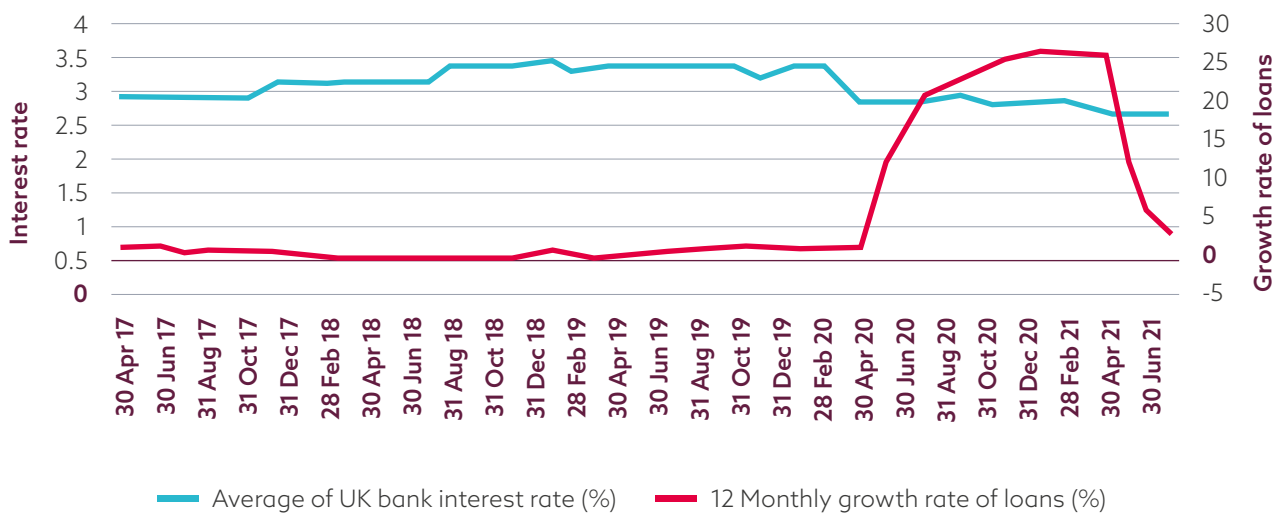
<sup>37</sup> [https://www.british-business-bank.co.uk/wp-content/uploads/2021/07/wales-national-slide-deck.pdf?dm\\_i=45HG,13TGI,6J3AIO,521E8,1](https://www.british-business-bank.co.uk/wp-content/uploads/2021/07/wales-national-slide-deck.pdf?dm_i=45HG,13TGI,6J3AIO,521E8,1)

## Interest rates on UK SME loans further declined, and the annual growth rate of loans fell sharply.

Figure 7 illustrates that the average interest rates on UK SME loans fell during 2021 Q2. The average interest rate was 2.65% in July 2021, down from 2.67% in April 2021. The declining trend reflects Bank of England concerns to reduce the cost of business borrowing in the light of the rising risk of insolvencies.

UK government schemes for business support during Covid-19 have driven a significant increase in SME borrowing, although funding applications to UK Government schemes have been declining in recent months. This is reflected in Figure 7 that shows a significant drop of the annual growth rate of loans to SMEs, from 25.5% in April to just 2.8% in July 2021. As the availability of some Government backed schemes has ended, the focus is now on the Recovery Loan Scheme (RLS) which opened to applications on 6 April 2021.

**Figure 7.**  
*Interest rate on UK SME loans, and growth rates of loans*



Source: [Bank of England](https://www.bankofengland.co.uk/quarterly-report)

UK Finance figures show that gross lending to UK SMEs continued to record quarterly declines after the peak of 2020 Q2. It fell from £34.5 billion in 2020 Q2 to £13.9 billion

in 2020 Q3, £9.6 billion in 2020 Q4 and £7.6 billion in 2021 Q1, although this was still 35% higher than gross lending in 2020 Q1.<sup>38</sup>

<sup>38</sup> <https://www.ukfinance.org.uk/sites/default/files/uploads/Business-Finance-Review-2021-Q1-Final.pdf>



## Equity supply gaps identified in 2020.

According to the *SME Intermediaries Research 2021*, equity finance is expected to have relatively low demand in Wales over the next 12-18 months, compared to core finance products. The research found that 92% of responding Welsh SMEs agree that they require additional debt finance, while just 58% report that they will require additional early-stage equity (lower than the UK average, 68%), 64% later stage equity and 75% growth stage equity.

The respondents identified supply challenges for equity in Wales. Around 55% of respondents reported finance gaps in early stage and growth stage equity. As noted earlier, these results are based on small survey sample sizes, hence some caution is needed in the interpretation of the findings.

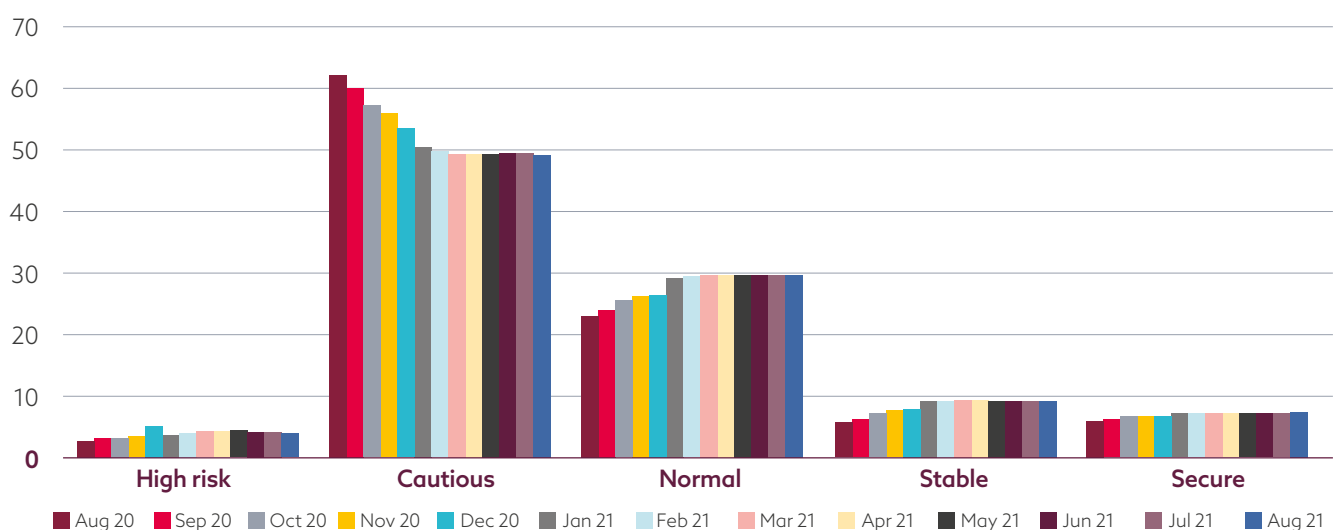
## Fall in SMEs in High Risk group, and an extended improvement in Welsh SME credit risk ratings.

Welsh SME credit risk ratings continued to improve, amid the extension of government policies supporting firms and jobs. The proportion of Welsh SMEs in the High Risk credit rating group continued to fall, dropping from 4.5% in May to 4.2% in August 2021. The proportion of SMEs in the Caution, Normal, Stable and Secure categories has remained largely unchanged from May to August 2021.

Government policies supporting firms and jobs have contributed to an extended improvement in the credit risk picture in Wales in the last 15 months. It is worth adding that the number of Welsh SMEs in the FAME database, from which the credit risk information is derived, has increased from 36,000 in August 2020 to 54,500 in August 2021, with similar increases being recorded in all the UK devolved administrations.

**Figure 8.**

*Proportion of SMEs by Credit Risk in Wales (%), August 2020 - August 2021*

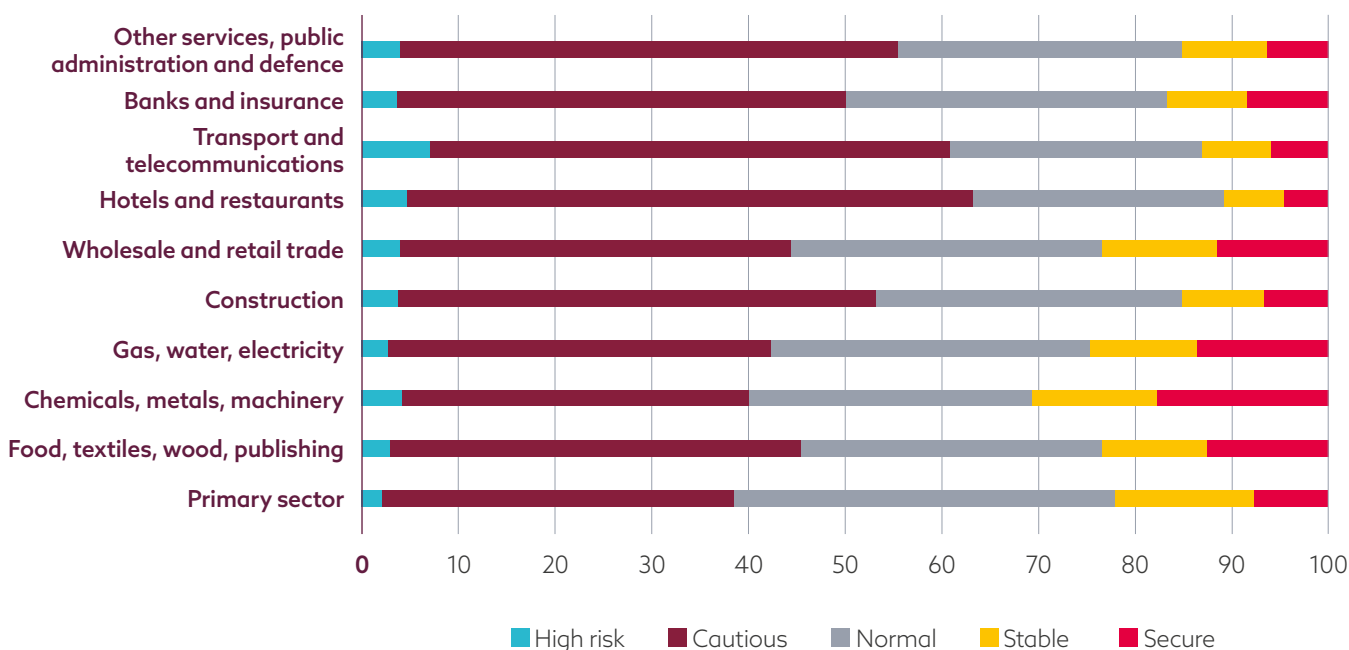


Source: [FAME](#), Bureau van Dijk

Figure 9 shows data for the Welsh SME credit risk by sector in August 2021. In similarity to recent Quarterly reports, hospitality as well as transport and telecommunications had the highest share of SMEs in the High Risk and Caution groups.

Sectors in manufacturing, such as chemicals, metals and machinery as well as gas, water and electricity, had the highest share of SMEs in the Secure and Stable categories.

**Figure 9.**  
*Welsh SMEs Credit Risk by Sector, August 2021*



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

- Due to the unprecedented scale of the Covid-19 Wales Business Loan Scheme (which committed funding of over £92 million, supporting more than 1,330 businesses during the last financial year), data comparisons with the previous year will be difficult.
- Investment and employment supported by the Development Bank of Wales activities declined in the quarter to 2021/22Q1, with both loan and equity investment falling.
- South-East Wales attracted the majority of new investment for another quarter.
- Construction had the largest share of new investment in 2021/22Q1.

This section summarises Development Bank of Wales investments in 2021/22 Q1. All the data in this section has been derived from the Development Bank's database.

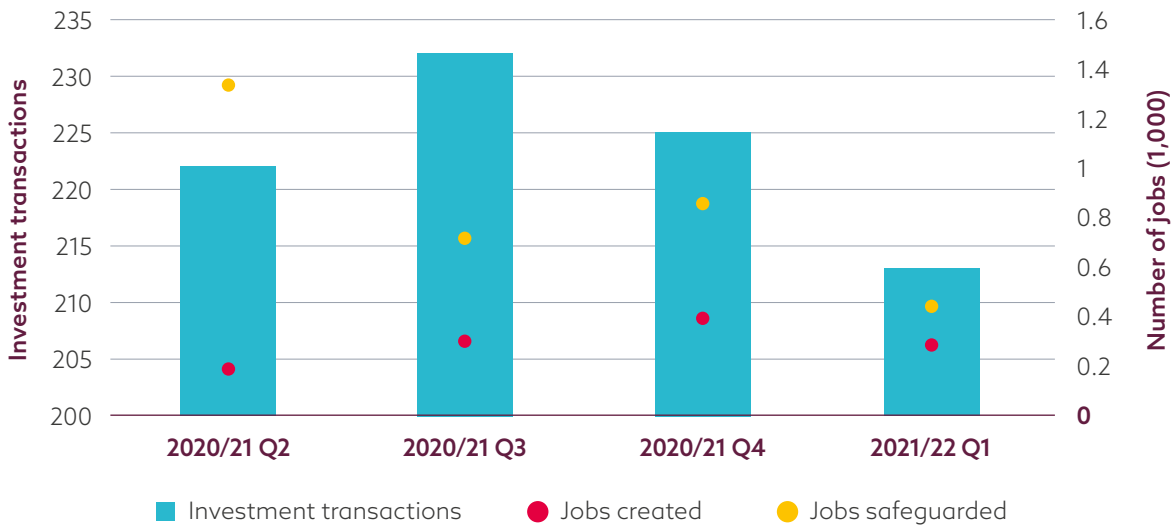
## A fall in investment and employment supported in 2021/22 Q1.

The Development Bank of Wales made 213 investment transactions in 2021/22 Q1, linked to 112 deals. This compares with 2020/21 Q1, when there were 1,434 investment transactions in total, but with the vast majority relating to the Covid-19 Wales Business Loan Scheme (CWBLS). Excluding CWBLS there were 141 investment transactions in 2019/20 Q1, and 148 investment transactions in 2019/20 Q1.

Investment transactions are down from 225 in 2020/21 Q4, 230 in 2020/22 Q3 and 220 in 2020/21 Q2. The Development Bank of Wales invested £20.7 million in 2021/22 Q1, down from £26.6 million in 2020/21 Q4. The average investment amount in 2021/22 Q1 was £97,000 down from £118,000 in 2020/21 Q4. The 213 investment transactions in 2021/22 Q1 created and safeguarded 443 employment positions, compared to 15,493 in 2020/21 Q1, affected by the CWBLS investments.

**Figure 10.**

*Investment transactions and jobs created and safeguarded, 2020/21 Q2 – 2021/22 Q1*



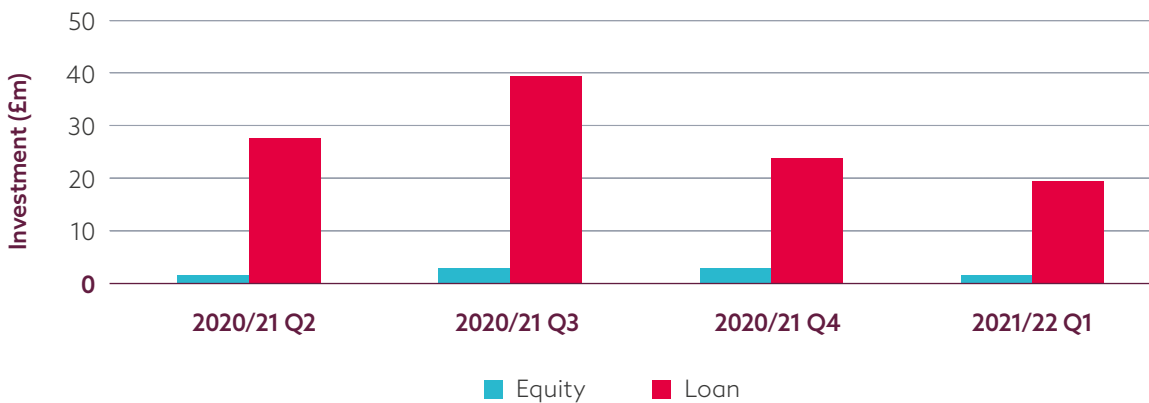
## Decline in loan investment and equity investment in 2021/22 Q1.

New loan investment was £19.2 million in 2021/22 Q1, down from £101.5 million in 2020/21 Q1 but up from £15.4 million when

excluding Covid-19 Wales Business Loan Scheme. Equity investment was £1.4 million in 2021/22 Q1, down from £7m in 2020/22 Q1.

**Figure 11.**

*New Investment by Investment Type (£m), 2020/21 Q2 – 2021/22 Q1*



## South East Wales attracted the majority of new investment in 2021/22 Q1.

In similarity to previous periods, the majority of investments were made to firms located in South East Wales 2021/22 Q1. New investment in South East Wales, which was the location of over half of all firms in Wales in 2019, amounted to £8.6m, creating 142 and safeguarding 64 jobs.

New investment in North Wales was £5.1 million and in Mid and South West Wales was £7 million, reflecting the higher business concentration of the latter (32% of all Welsh firms were located in Mid and South West Wales in 2019, compared to 24% in North Wales).

**Figure 12.**  
*Investment by Location (£m), 2021/22 Q1*



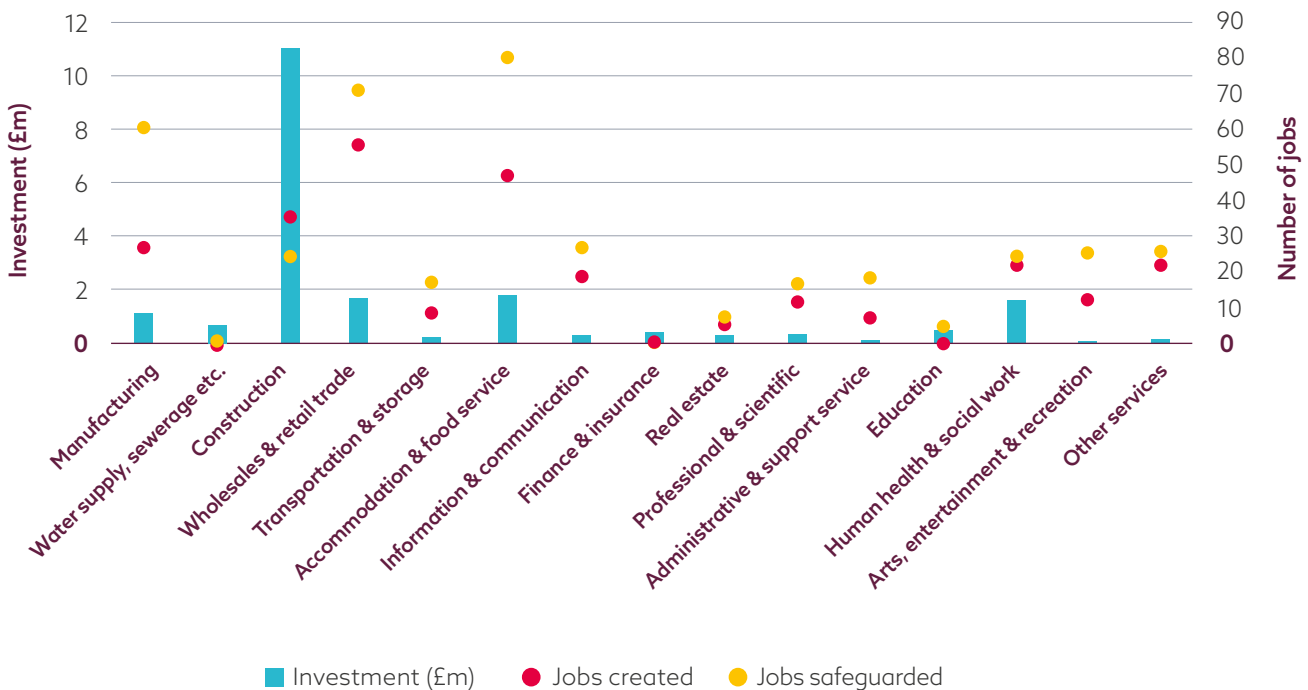
## Construction had the largest share of new investment for another quarter.

In 2021/22 Q1, construction received the largest share of new investment (£11 million), creating or safeguarding 30 jobs. Other sectors that attracted high amounts of investments included

hospitality (£1.85 million), wholesale and retail (£1.7 million), human health and social work (£1.6 million) and manufacturing (£1.2 million).

**Figure 13.**

*Investment and jobs created and safeguarded by sector (£ million), 2021/22 Q1*



The second quarter of the 2021 calendar year saw a relaxation of the remaining lockdown conditions and the gradual reopening of the economy, with this following a successful vaccine rollout. UK GDP, labour market, exports and business investment indices have all improved. Subsequently, signs of dynamism of the business population were identified in the UK and Wales with increases in both business births but also deaths. While business prospects have improved, many firms, particularly the micro and small enterprises, continue to face uncertainty, after having been significantly affected by the pandemic and subsequent mitigation policies.

Further challenges for labour market resilience and business prospects are still ahead as the job retention scheme has ended, and businesses are facing increasing pressures from the rising costs of inputs, supply chain problems, and labour shortages in many sectors. A 'full' recovery of the Welsh economy is not expected soon, with forecasts suggesting that pre-pandemic GVA levels will not be reached until the mid-2020s, although the recovery in employment is expected much sooner.

Particularly for the smaller SMEs in Wales, the post-pandemic future seems challenging, with these businesses facing risks of insolvency, low cash reserves and thus increasing credit demand. The proportion of Welsh SMEs using external finance has increased, with many of them starting to borrow in the pandemic period. However, credit conditions have recently become tight, with the report identifying possible equity finance supply gaps. By contrast, Welsh SMEs' credit risk picture continues to improve, possibly driven by the important UK and Welsh Government business support schemes.

Undoubtedly, in this challenging economic context, the activities of the Development Bank of Wales have had an added value regarding the business and economic prospects in Wales. Indeed, this report has revealed that the activities of the Development Bank of Wales have continued to play a crucial role in the efforts for Welsh business recovery. The value of some 213 investments made in 2021/22 Q1 was around £20 million. These investments created an estimated 280 jobs and safeguarded around 160 jobs, mainly in manufacturing, accommodation as well as wholesale and retail, sectors that have been significantly affected by the pandemic and the suspension of business activity. Future Quarterly reports will be exploring the extent to which the improved economic conditions in the opening months of 2021/22 feed into SME demands for finance, and underlying investment activity.

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>

### **ONS Business Impact of COVID-19 Survey:**

<https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessimpactofcovid19surveybicsresults>



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