

Economic Intelligence Wales

Quarterly report

June 2022

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Executive summary

- The optimism towards the end of 2021 has dwindled as the worsening outlook for the global economy in the early months of 2022 was exacerbated by the impact of war in the Ukraine. Forecasts for the global and UK economies for 2022 and 2023 have been downgraded, and uncertainty remains high.
- Following the UK's largest annual economic contraction on record in 2020, the UK economy grew for a third consecutive quarter in 2021 Q4. By February 2022, monthly estimated UK GDP exceeded its pre-pandemic level by 1.5%.
- The number of SMEs in Wales declined during 2021. The largest percentage decrease in the number of enterprises was in the micro size band.
- Welsh SME confidence was lower than any other region in the UK in 2021 Q4.
- Bank lending returns to levels last seen prior to the Covid-19 pandemic.
- The SME Finance Monitor for Wales in 2021 Q4 identified the increasing cost pressures facing SMEs in Wales; 37% of Welsh SME respondents revealed that they had been significantly impacted by increasing costs.
- In 2021/22 Q3 the Development Bank of Wales completed 243 investment transactions, with a total value of almost £28m. These investments were associated with around 760 new and safeguarded jobs.

The economic outlook for the global and UK economy has changed considerably since the previous Quarterly report. **The cautious optimism has been replaced with heightened economic uncertainty and geopolitical tensions.**

The war in the Ukraine is adding significantly to an already worsening global economic outlook. As the year has progressed global GDP forecasts for this year and next year have been downgraded, with possible further revisions to come. **The scale and duration of the negative economic shock resulting from the war is unknown, hence estimates of the impacts on global growth are even more uncertain.**

Having seemingly overcome some of the worst economic consequences of the Covid-19 pandemic, the UK economy is now facing inflation levels not seen for many years. The IMF consider that 'inflation has now become a clear and present danger for many countries'.

The Bank of England increased its base rate of interest to 1% in May, the fourth consecutive increase.

In the final quarter of 2021, UK GDP is estimated to have grown by 1.3%. In February UK monthly GDP growth slowed to 0.1%, taking UK GDP to 1.5% above the pre-Covid-19 level. **The Bank of England expected that UK GDP will have grown by 0.9% in the first quarter of 2022.**

While UK business investment grew by 1% in 2021Q4. By the end of 2021, UK business investment was still estimated to be 8.6% lower than 2019 pre-pandemic levels. Business investment is expected to remain weak in 2022.

Between January and March 2022, the number of UK vacancies hit a new record high of 1,288,000, increasing by 50,200 from the previous quarter. **The number of workforce jobs in the UK increased to 35.2 million in December 2021,** with increases in every three-month period

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since December 2020. However, **by December 2021 the number of workforce jobs was still 482,000 below pre-pandemic levels.**

The UK unemployment rate for the three-month period to February 2022 was an estimated 3.8%, marginally lower than the previous three months, and just below pre-pandemic levels. The unemployment rate in Wales was 3% over the same period.

The Size Analysis of Active Businesses in Wales reported that **SMEs in Wales employed an estimated 723,500 people in 2021**, a fall of 1.6% from 2020. Between 2020 and 2021 the number of SMEs declined. The largest decrease in the number of enterprises was in the micro size band, which fell by 2.5%.

Falling business confidence

The FSB reported that **SME confidence in Wales fell** into negative territory in 2021 Q4, down 48 points from 2021 Q3 to -31. This was the index value lowest of all regions.

There was a fall in the UK Small Business Index 2021 Q3 to 2021 Q4. This was the first negative index reading since 2020 Q4. Apprehension over operating costs continued and there were growing fears that increased staff absence due to the Omicron Covid-19 variant could impact on existing labour shortages and create further labour cost pressures.

The value of Welsh goods exports increased by 12.4% to £15.2 billion over the year to December 2021, with the value of goods imports increasing by 13.2% to £16.1 billion over this same period. There are however some concerns that small firm exporters are ceasing to trade with the EU due to rising fixed costs, with evidence of a falling number of UK-EU trading relationships between buyers and sellers.

Around 0.6m small firms borrowed for the first time during the Covid-19 period according to the British Business Bank Small Business Finance Markets for 2021-22. However, UK Bank lending has returned to levels last seen prior to the Covid-19 pandemic. In 2021 the figure stood at an estimated £57.7bn.

The BVA BDRC SME Finance Monitor survey results for 2021 Q4 also underline **increasing small business concerns over rising costs**, and with these pressures expected to have increased markedly in the first quarter of this year.

The survey revealed that some **43% of UK SMEs had used externally generated finance in 2021, compared to 37% in 2020.** The growth in the use of external finance last year was evidenced particularly in smaller SMEs.

In 2021 Q4 8% of Welsh SMEs had future plans to borrow or renew finance; 76% were happy non-seekers, 1% were seekers with immediate need and 15% were finance seekers with no immediate need.

The number of Development Bank of Wales transactions has increased throughout the 2021/22 financial year. **In 2021/22 Q3 the Development Bank completed 243 investment transactions, with a total value of almost £28m.** These investments were associated with around 760 new and safeguarded jobs. Of the total value of investments in 2021/22 Q3, 62% were in the construction and manufacturing sectors of the economy.

This is the third Economic Intelligence Wales Quarterly report for the 2021/22 financial year. This Quarterly report is published at a time of economic uncertainty. Having seemingly overcome some of the worst economic consequences of the Covid-19 pandemic, the UK economy is now facing inflation levels not seen for many years, with the prospect of further increases as the year progresses. The war in the Ukraine is placing additional stresses on the global financial system. This year is already seeing businesses faced with rising costs set alongside severe labour shortages in many parts of the economy. UK households and businesses are facing sharp increases in energy bills and with the UK Government having limited latitude to assist following the strains on public finances following the Covid-19 crisis.

In Wales the impacts of increasing energy prices are expected to be more acute, with a relatively high proportion of local manufacturing that is energy intensive.¹ In addition, estimates suggests that in Wales 'up to 45% of households (624,000) could be in fuel poverty following the price cap increase of April 2022',² while housing in Wales had the lowest energy efficiency score when compared with the English regions (this being linked with age and types of properties by location).³

Sections 2-4 of this report provide the UK and Welsh macroeconomic context within which Welsh SMEs operate. 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 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. In particular economic data relating to forecasts and impacts of the crisis in the Ukraine on the global and local economy are changing quickly. Hence establishing a timely economic picture of impacts across the Welsh SME landscape is particularly challenging.

¹ See Jones, C. 2010. Less and less favoured? Britain's regions in the energy crunch. *Environment and Planning* 42(12), pp. 3006-3022. ([10.1068/a43206](https://doi.org/10.1068/a43206))

² <https://gov.wales/fuel-poverty-modelled-estimates-wales-headline-results-october-2021.html>

³ <https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/energyefficiencyofhousinginenglandandwales/2021>

- The optimism towards the end of 2021 has dwindled as the worsening outlook for the global economy in the early months of 2022 was exacerbated by the impact of war in the Ukraine. Forecasts for the global and UK economies for 2022 and 2023 have been downgraded, and uncertainty remains high.
- Following the UK's largest annual economic contraction on record in 2020, the UK economy grew for a third consecutive quarter in 2021 Q4. By February 2022, monthly estimated UK GDP exceeded its pre-pandemic level by 1.5%.
- There is evidence of a further tightening in labour market conditions across the UK. Vacancies are high, and unemployment rates have fallen. Wales had one of the lowest unemployment rates in the UK in the three months to February 2022 (3%, compared to 3.8% for the UK).
- The National Institute of Economic and Social Research (NIESR) forecasted that GVA in Wales will exceed the pre-pandemic (2019 Q4) level by 1.4% in 2022 Q4. However, these forecasts were made before the Russian invasion of the Ukraine.

A slowing global economy at the end of 2021 and early 2022

A slowing global economy at the end of 2021 and early 2022 Towards the end of 2021 there was some limited optimism that the global economy could be on the path to recovery from the pandemic and related social and economic impacts. As the year came to a close, the threats to this recovery became stronger. In their January 2022 World Economic Outlook, the IMF noted that the global economy was in a weaker than anticipated position in 2022 due to 'adverse developments' since their October 2021 publication.⁴ These developments included higher and more persistent inflation, high energy prices and continued supply disruptions, as well as the continuing Covid-19 problems in many world economies.

The IMF forecast for global economic growth in 2022 was downgraded from 4.9% in October 2021 to 4.4% in January 2022. Particularly important to the global forecasts then were the downgraded predictions for economic growth in both the USA and China for 2022. In China outbreaks of the Omicron variant of Covid-19 and subsequent lockdowns due to the zero-Covid-19 strategy will continue to impact economic activity and global supply chains. The Economist reported that this is a severe threat to global growth noting that 'Shanghai is the latest global port to see hundreds of ships back up offshore, waiting to load or unload'.⁵

⁴ <https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

⁵ <https://www.economist.com/leaders/2022/04/06/a-toxic-mix-of-recession-risks-hangs-over-the-world-economy>

The negative economic impacts of the war in the Ukraine will be significant

The IMF further updated their forecasts in the April 2022 World Economic Outlook as 'global economic prospects have worsened significantly' since the January report.⁶ The onset of the war in Ukraine, and the heightened geopolitical tensions have further impacted an already weakening global economy. Their forecast for global output growth in 2022 has been further revised down to 3.6%, while the 2023 forecast is also for 3.6% growth.

The OECD interim Economic Outlook⁷, published in March 2022, also focused on the impacts and policy implications of the war. As stated in this report, the most important impacts relate to the number of lives lost and the humanitarian crisis. The economic impacts will however be wide ranging. Whilst not amongst the largest world economies, the OECD report identifies the important role of Ukraine and Russia in terms of food production, minerals and energy. The output from these economies are key inputs to many global supply chains.

The scale and duration of the negative economic shock resulting from the war is unknown, hence estimates of the impacts on global growth are even more uncertain. However, some illustrative simulations undertaken by the OECD (published in March 2022) suggest that the impacts could

be a reduction of over one percentage point in global growth, and that global inflation could increase by around 2.5 percentage points in the first full year since the invasion. Prior to the war, in December 2021, the OECD had predicted 4.5% global GDP growth for 2022.

The National Institute for Economic and Social Research (NIESR) have also simulated the potential global impacts of the war⁸. Their estimates suggest that the economic effects of the war could reduce global GDP growth by 0.5% this year, and by around 1% in 2023, and that up to 3% could be added to global inflation this year as a result of the conflict. According to NIESR the EU economy will face the largest impacts, given the significant trade links and the reliance on Russian energy supplies.

In March the European Central Bank (ECB) reported that they were still expecting the Euro area to 'grow robustly' in 2022, although at a slower than previously expected rate due to the war.⁹ However as the war progresses any economic forecasts are likely to be revised. The impacts on global trade are starting to emerge. For example, the Kiel trade indicator suggests that global trade fell by 2.8% in March, compared with the previous month.¹⁰

⁶ <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>

⁷ <https://www.oecd-ilibrary.org/sites/4181d61b-en/index.html?itemId=/content/publication/4181d61b-en>

⁸ <https://www.niesr.ac.uk/blog/what-economic-impact-russia-ukraine-conflict>

⁹ <https://www.ecb.europa.eu/press/pressconf/2022/html/ecb.is220310-1bc8c1b1ca.en.html>

¹⁰ <https://www.ifw-kiel.de/publications/media-information/2022/kiel-trade-indicator-0322-world-trade-in-downturn/>

UK GDP grew during the final quarter of 2021

In the final quarter of 2021, UK GDP is estimated to have grown by 1.3%, and in January 2022 the UK economy grew by an estimated monthly rate of 0.8%.¹¹ The service sector of the UK economy was the main contributor to the monthly GDP growth in January 2022, although production and construction sectors also recorded positive monthly GDP growth. By February 2022 UK GDP growth slowed to

0.1%.¹² While the service sector continued to grow, there was a fall in GDP in the production and construction sectors of the UK economy. In February 2022 monthly UK GDP was 1.5% above its pre-pandemic level. The Bank of England estimated UK GDP growth of 0.9% for 2022 Q1.¹³

UK business investment grew in 2021 Q4

Following a modest growth of 0.7% in 2021 Q3, UK business investment grew by 1% in 2021 Q4.¹⁴ The Other Services sector contributed most to the quarterly increase, with some marginal growth in distribution services. Business investment fell in 2021 Q4 in production and construction industries. By the end of 2021, UK business investment was estimated to be 8.6% lower than 2019 pre-pandemic levels. The Bank of England's

Monetary Policy Report for February 2022¹⁵ noted the constraints on business investment to be shortages of materials and specific types of skilled labour as well as the cost of materials. The Bank suggested that business investment would remain weak in 2022Q1, but that this could pick up during the latter part of the year. Although such expectations may further change given the more recent increases in levels of economic uncertainty.

¹¹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/january2022>

¹² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/february2022>

¹³ <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/may-2022>

¹⁴ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/octobertodecember2021revisedresults#business-investment>

¹⁵ <https://www.bankofengland.co.uk/monetary-policy-report/2022/february-2022>

The number of job vacancies in the UK reached a new record high amid a tightening labour market

Between January and March 2022, the number of UK vacancies hit a new record high of 1,288,000, increasing by 50,200 from the previous quarter.¹⁶ The ratio of vacancies for every 100 employee jobs rose slightly to 4.2 during the same period. The data shows a continuing labour market recovery, with the number of workforce jobs in the UK increasing to 35.2 million in December 2021. There has been an increase in the number of workforce jobs in every three-month period since December 2020. Between December 2019 and December 2021 the number of employee jobs have increased by 204,000, but this has been partially offset by a decline of 687,000 self-employed jobs over the same period. By December 2021 the number of workforce jobs was still 482,000 below pre-pandemic levels.

Early estimates from Pay as You Earn Real Time Information shows increases in the number of payrolled employees in the UK for March 2022 to 29.6m, a rise of almost 1.4m over the previous year and an increase of 209,000 since January 2022.¹⁷¹⁸ There was an increase in payrolled employees over the year to March 2022 in most sectors in the UK, however the changes were uneven. The percentage increase over the year was lowest in finance and insurance industries (around 0.1%) and highest in arts, entertainment and recreation, and in accommodation and food services (both over 21%); industries which experienced significant impacts during the

pandemic. Increases in payrolled employees in these sectors reflects some recovery since the pandemic. In the accommodation and food sector, the number of payrolled employees in March 2022 was just over 1% above pre-pandemic levels (February 2022), whilst in arts, entertainment and recreation, the March 2022 number of payrolled employees was almost 3% below the February 2020 level. The only main sector in the UK to experience a decline in the number of payrolled employees in the year to March 2022 was the energy production and supply sector (a decline of just over 5%), partly reflecting a number of firm closures in this sector.

In Wales the number of payrolled employees grew by almost 9,000 between January and March 2022 to 1.29m; this compares to 1.26m in February 2020 before the pandemic.¹⁹ The regional data on payrolled jobs by sector is updated less frequently, but the data to January 2022 shows similar patterns of growth to the UK. However, by January 2022 the number of payrolled employees in Wales in accommodation and food was almost 1% below pre-pandemic levels, whilst in arts, entertainment and recreation the number of payrolled employees in January 2022 was almost 7% below the level in February 2020.

¹⁷ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/latest#regional-data>

¹⁸ The early estimates are more likely to be subject to later revisions.

¹⁹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

UK unemployment rate fell to pre-pandemic levels

The UK unemployment rate for the three-month period to February 2022 was an estimated 3.8%, marginally lower than the previous three months, and just below pre-pandemic levels.²⁰ The highest UK unemployment rates for the same period were in the North East (5.4%), the West Midlands (5.1%) and London (4.6%), whilst the lowest rates were in Northern Ireland (2.5%), the East Midlands (2.8%) and the South West (2.9%) and Wales (3%).²¹

The UK redundancy rate decreased to a record low in the three-month period to January 2022. According to the Labour Force Survey, the UK redundancy rate²² continued to decline to 2.4 per 1,000 employees.²³ The trend in the UK redundancy rate had been downwards since its peak of 14.4 per 1,000 employees in the three

months to November 2020. However, in the three months to February the redundancy UK rate increased to 2.7 per 1,000 employees.

There were increases in the redundancy rates in the latest three-monthly figures in a number of English regions. In Wales there was an increase in the redundancy rates in the previous three-month period to January 2022, but this then fell again in the three months to February to 3.2 per 1,000 employees. The redundancy rate in Wales in the three months to February 2022 was higher than in Scotland (2.9), Northern Ireland (2.1) and England (2.6 per 1,000 employees). However, this data is not seasonally adjusted, and based on small sample sizes, so should be used with caution.

A decrease in the number of unemployment benefit claimants in February 2022

The UK unemployment-related benefit claimant count fell by over 0.92m during the year to March 2022 to 1.75m people.²⁴ In Wales, almost 75,000 people claimed unemployment-related benefits (equal to 3.9% of the working age population, compared with a figure of 4.2% for the UK) in March 2022. According to the data for March 2022, the Welsh areas with the highest proportion of working age population claiming unemployment-related benefits were

Newport (5.5), Blaenau Gwent (4.7%), Merthyr Tydfil (4.5%) and Torfaen (4.4%), and those with the lowest proportions were Monmouth (2.6%), Powys (2.7%) and Ceredigion (3.1%) (Figure 1). The rates in all unitary authority areas in Wales have continued to decline after the end of the furlough scheme.

²⁰ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest>

²¹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

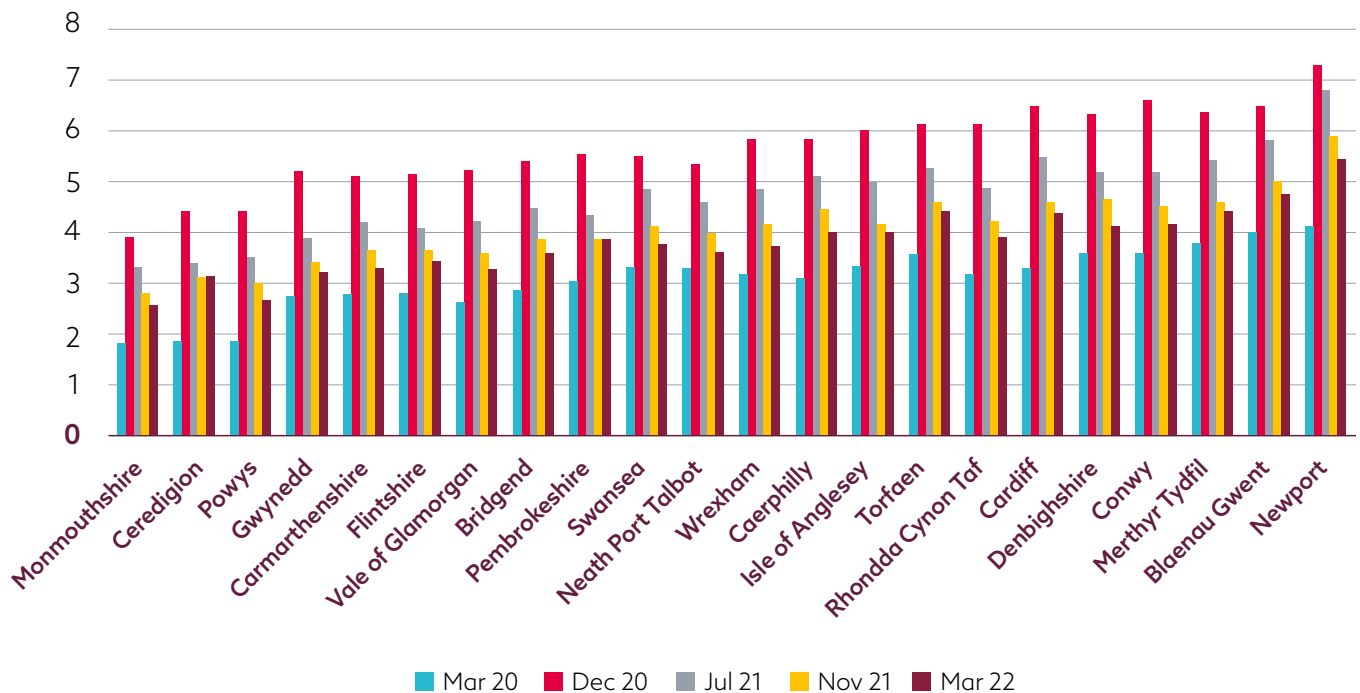
²² The redundancy rate is the ratio of the redundancy level for the given quarter to the number of employees in the previous quarter, multiplied by 1,000

²³ <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

²⁴ <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental>

Figure 1.

Proportion of working aged people claiming unemployment-related benefits by Welsh local authority, March 2020 to March 2022, selected months.



Source: [ONS, 2021](#)

Increasing economic pressures in the UK during 2022

During the opening months of 2022 the UK economy has also been under increased pressure from high inflation, particularly energy cost increases, and continued supply chain problems. These pressures and the related cost of living crisis in the UK will be further exacerbated by developments in the Russia-Ukraine conflict. In addition, record levels of Covid-19 infections have resulted in high levels of work absences, and changes to national insurance payments from April 2022 will impact many workers and businesses.

In the Bank of England's Monthly Decision Maker (March 2022)²⁵, respondents were surveyed for the first time about the impact of the conflict in the Ukraine on their sales and levels of uncertainty. Of the almost 3,000 respondents, around half expected the war to negatively affect sales during the following year, with an average impact of -3%. The Russian invasion of the Ukraine was the largest source of uncertainty for almost 11% of respondents, compared with Brexit, which was the largest source of uncertainty for just over 3% of respondents.

²⁵ <https://www.bankofengland.co.uk/decision-maker-panel/2022/march-2022>

The percentage of respondents citing Covid-19 as the largest source of uncertainty fell from 22% in January 2022, to almost 14% in February 2022, and to 3.4% in March.

UK inflation, as measured by the Consumer Price Index (CPI) increased to 7% in the 12 months to March, up from 5.5% in the 12 months to January and from 6.2% in the 12 months to February.²⁶ In March 2022, the Bank of England expected inflation to reach around 8% by spring 2022, a one percentage point increase from their February expectation.²⁷ In early May, the Bank's expectation was for inflation to reach over 9% by 2022 Q2, and to average over 10% at its peak in 2022 Q4.²⁸

The upwards revisions in the inflation expectation are in part a result of the Russia-Ukraine war, which is further impacting energy and food prices. For example, the United Nations

reported that the food-price index had already reached an all-time high in February, noting that this result only partly incorporates the effects relating to the conflict in the Ukraine.²⁹ The most recent upwards revision the Bank's inflation expectations also reflects increases in household's energy prices as a result of the rise in the energy price cap in April, and the expected further increase in October.

The IMF considered that 'inflation has now become a clear and present danger for many countries'.³⁰ The Financial Times has reported that the UK economy could now experience a 'prolonged period of stagflation,' where slow or negative economic growth combines with high inflation, and which 'puts great strain on consumers and businesses'.³¹

GDP in Wales increased in 2021 Q2

The quarterly (experimental) GDP estimates show that all the devolved administrations experienced positive quarterly GDP growth in 2021 Q2. The Welsh economy had the highest quarterly GDP growth at 6.2%, compared with 5.6% in Scotland, 4.8% in England and 3% quarterly GDP growth in Northern

Ireland.³² This data is however volatile, and should be treated with caution, for example all the devolved administrations previously experienced negative GDP growth in 2021Q1.

²⁶ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/march2022>

²⁷ <https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising>

²⁸ <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/may-2022>

²⁹ <https://news.un.org/en/story/2022/03/1113332>

³⁰ <https://blogs.imf.org/2022/04/19/war-dims-global-economic-outlook-as-inflation-accelerates/>

³¹ <https://www.ft.com/content/64db3dcf-23ff-4f69-9a4c-d684675b596b>

³² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/apriltojune2021>

UK and Welsh economy forecasts

The April HM Treasury forecast publication contained a comparison of independent forecasts received between 1st and 11th April.³³ The average forecast for UK GDP growth in 2022 was 4.1%, with growth of 1.5% expected in 2023. The average forecasts have been downgraded compared with forecasts made in February and March, with likely further revisions in the coming months. The average of the independent forecasts for 2022 is above the Economist Intelligence Unit forecast (April 30th) of 3.9% GDP growth for Britain in 2022.³⁴ The IMF's April 2022 World Economic Outlook forecasts for UK GDP growth have been downgraded significantly to 3.7% for 2022 and 1.2% for 2023 (from 4.7% and 2.3% respectively in the January 2022 publication).

Significantly, in early May, the Bank of England's forecasts for UK GDP growth in 2023 were also revised downwards from 1.25% to -0.25%.

In their Winter UK Economic Outlook, published in February 2022, the NIESR kept their forecast for the UK largely unchanged at 4.8% GDP growth for 2022, and less than 2% growth in 2023.³⁵ In the February publication NIESR forecasted that GVA in Wales would exceed pre-pandemic levels by 1.4% by 2022Q4. NIESR have however since reported that they expect the Ukraine conflict could reduce their 2022 forecast for the UK by 0.8% to 4% GDP growth.³⁶

³³ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-april-2022>

³⁴ The Economist, April 16th 2022 edition. Economic and financial indicators.

³⁵ <https://www.niesr.ac.uk/publications/powering-down-not-leveling-up?type=uk-economic-outlook>

³⁶ <https://www.niesr.ac.uk/blog/what-economic-impact-russia-ukraine-conflict>

- The number of SMEs in Wales declined during 2021. The largest percentage decrease in the number of enterprises was in the micro size band.
- The Small Business Confidence Index in Wales contracted markedly in the quarter to 2021 Q4, decreasing into negative values.
- Welsh SME confidence was lower than any other region in the UK in 2021 Q4.
- Business births and deaths both increased in Wales in the year to 2022 Q1.

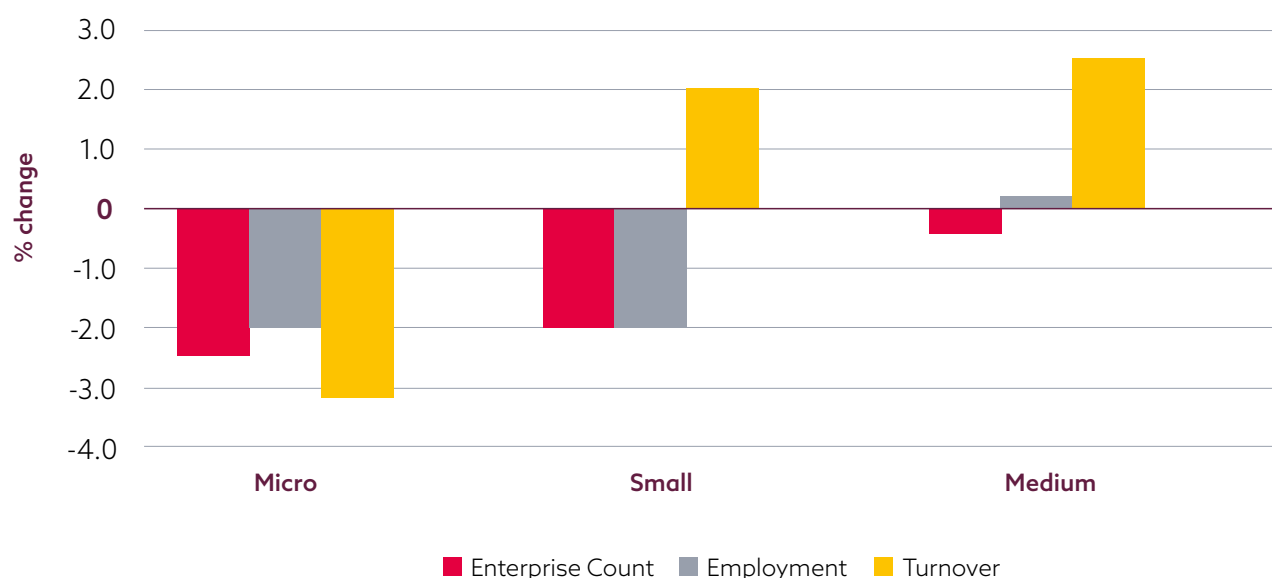
The number of SMEs in all size bands fell between 2020 and 2021

The Size Analysis of Active Businesses in Wales, 2021³⁷, reported that SMEs in Wales employed an estimated 723,500 people in 2021, a fall of 1.6% from 2020. Figure 2 shows that from 2020 to 2021 the largest decrease in the number of enterprises was in the micro size band, which fell by 2.5%. Over the year employment fell by 2.0% in both

micro and small sized enterprises but remained stable in medium size enterprises (increasing by 0.1%). Turnover decreased by 3.1% in micro size enterprises from 2020 to 2021 while there was an increase in turnover for both small and medium size enterprises, of 2.0% and 2.5% respectively.

Figure 2.

% change in enterprise count, employment, and turnover by size band (2020-2021)



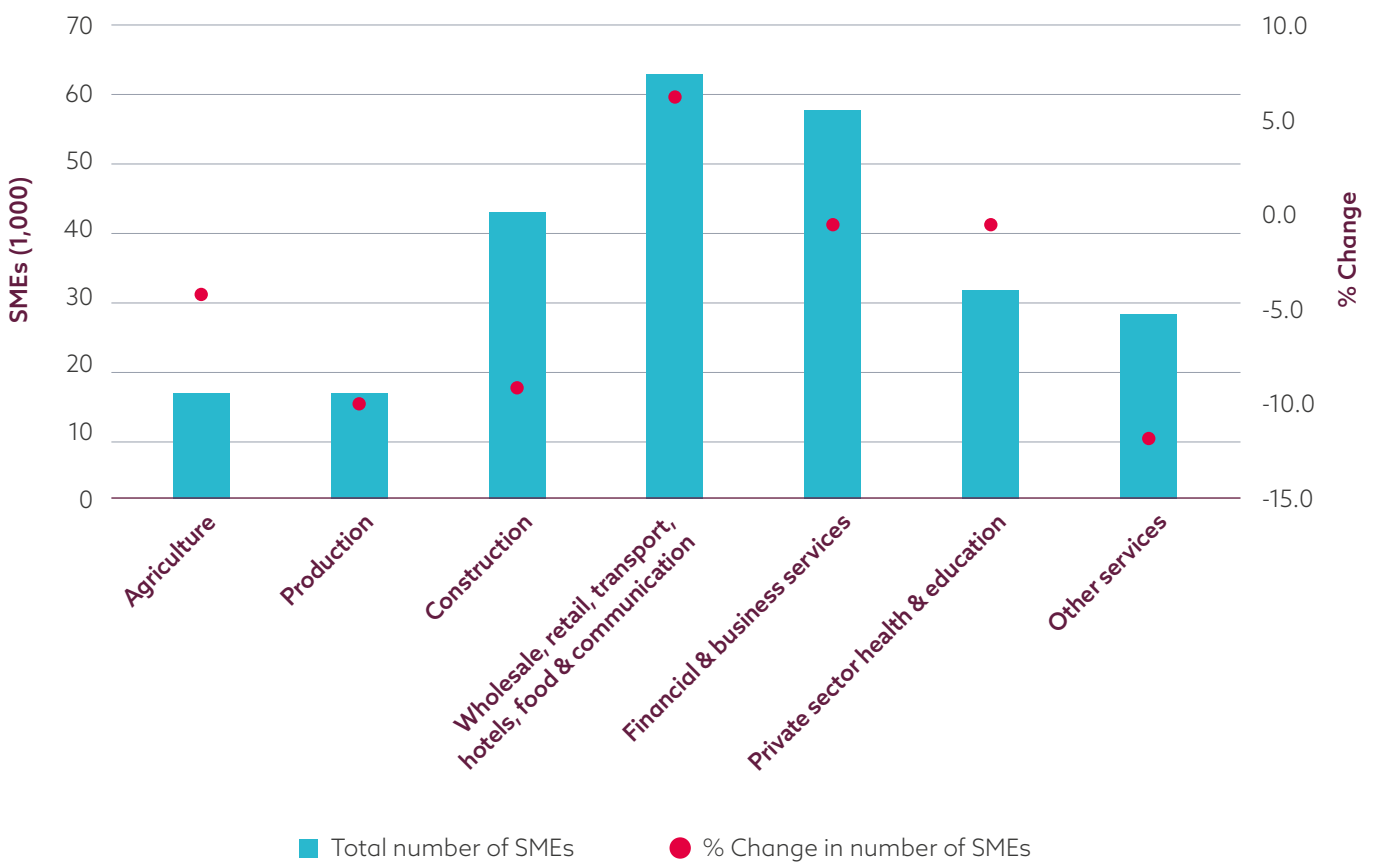
Source: [Size analysis of businesses: 2021 | GOV.WALES](https://gov.wales/size-analysis-of-businesses-2021)

³⁷ <https://gov.wales/size-analysis-businesses-2021>

Figure 3 shows the sectoral distribution of Welsh SMEs in 2021, together with the change in enterprise count from 2020 to 2021. The broadly defined wholesale/retail, transport, hotels, food, and communication services sector had the highest SME count with just over 64,000 SMEs in Wales in 2021. This sector

also experienced the largest increase in the number of enterprises from 2020 to 2021, with growth of 5.9%. The proportional decline in the number of enterprises from 2020 to 2021 was most evident in the other services (-10.9%), production (-10.2%), and construction (-9.0%).

Figure 3.
Number of Welsh SMEs (2021) and % change during 2020-2021



Source: [Size analysis of businesses: 2021 | GOV.WALES](https://gov.wales/government/size-analysis-of-businesses-2021)

Small firms' confidence falls

For the third consecutive quarter there was a fall in the UK Small Business Index³⁸, as it decreased a relatively sharp 24.9 points from 2021 Q3 to 2021 Q4, to -8.5. This was the first negative index reading since 2020 Q4³⁹. Apprehension over operating costs continued and there were growing fears that increased staff absence due to the Omicron Covid-19 variant could impact on existing labour shortages and create further labour cost pressures.

UK Small Business Confidence Index contracts in all sectors in 2021 Q4

The Accommodation and food services confidence index saw the largest quarterly fall from +2 in 2021 Q3 to -33 in 2021 Q4. Similarly, Information and communication fell from +47 in 2021 Q3 to +12 in 2021 Q4. The confidence index for the wholesale and retail trade went further into negative territory, dropping from -10 in 2021 Q3 to -40 in 2021 Q4.

In 2021 Q4, continuing the trend started in 2021 Q2, the net balance of small businesses reporting an increase in operating costs grew by 3.4 percentage points to 72.9%. The main causes for changing business costs by UK SMEs respondents were inputs (48.7%), fuel (45.6%), and utilities (44.8%). With growing pressures on energy prices continuing into 2022, via domestic and international events, there appears little room for optimism in seeing a reduction in these barriers to small business growth in the near-term. In addition, the ONS reported that the growth in the headline rate of input prices reached an all-time high in the year to March 2022 of 19.2%, up from 15.1% in February 2022.⁴⁰

³⁸ "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the weighting +2, slightly improved +1, approximately the same 0, slightly worse -1, and much worse -2; the Small Business Index is derived from the sum of these factors" (FSB, 2020).

³⁹ FSB (2021). FSB voice of small business index, Quarter 4 2021. Available at: <https://www.fsb.org.uk/static/d574cc2b-6ecb-4193-82682a4f5a5519a6/ce2a58be-f39e-464a-bcce6713d472dc05/FSB-Small-Business-Index-Q4-2021.pdf>

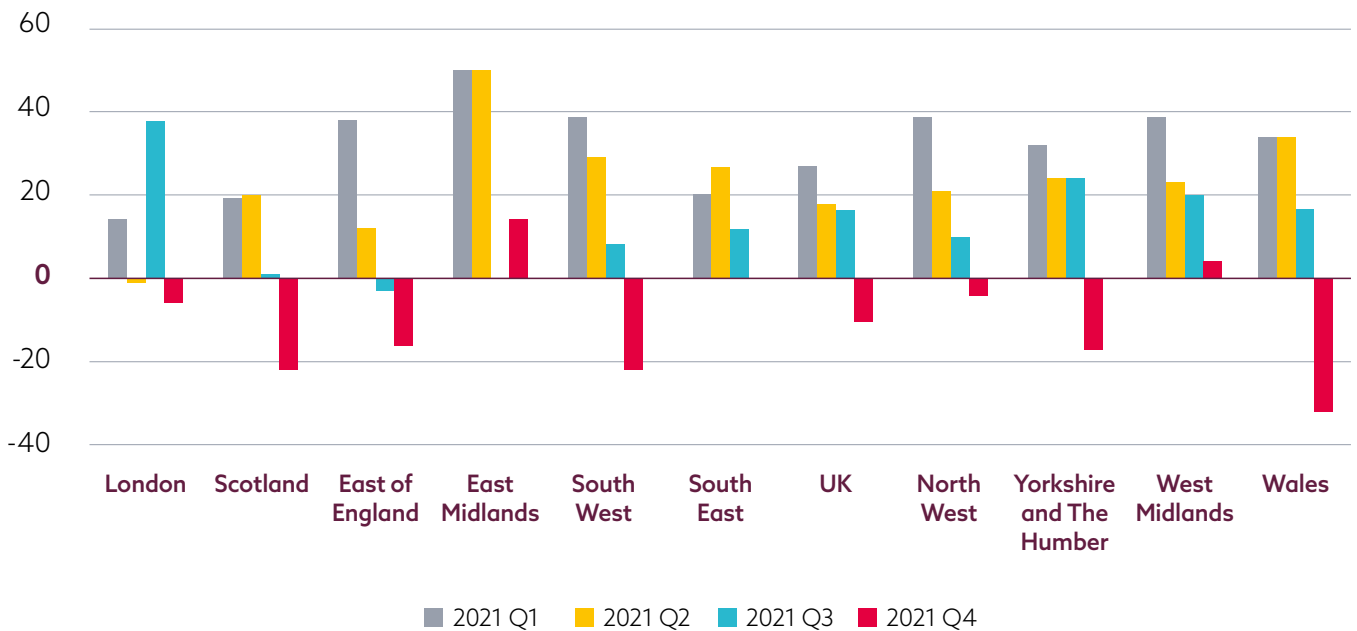
⁴⁰ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/march2022includingervicesjanuarytomarch2022>

Welsh SME confidence in 2021 Q4 sharply declines into negative values

The Federation of Small Businesses (FSB) reported that SME confidence in Wales, as measured by the Voice of Small Business Index, fell into negative values in 2021 Q4, down 48 points from 2021 Q3 to -31, the

lowest index value of all regions. The FSB cited the 'relatively harsher' government Covid-19 restrictions, when compared to England, as part of the reason for this fall in confidence.

Figure 4.
Voice of Small Business Index, UK regions, 2021Q1-2021Q4



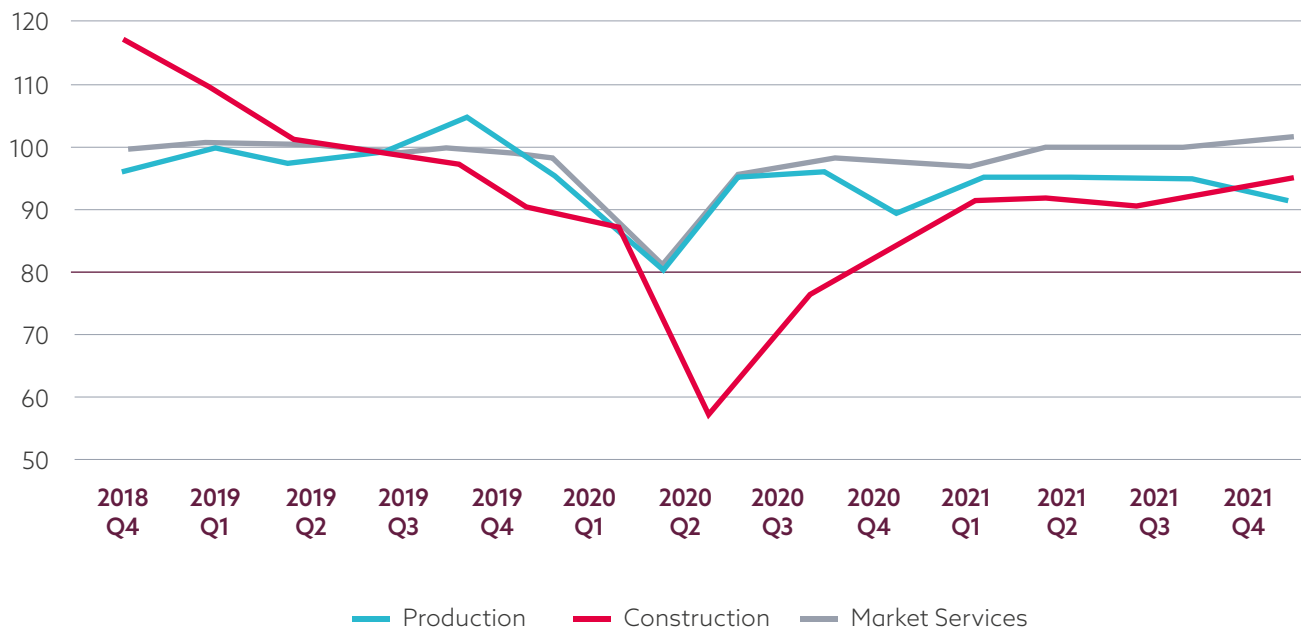
Source: [FSB Voice of Small Business Index 2021 Q4](#)

Generally positive output growth across Welsh economic sectors in 2021

Output for Welsh market services continued to recover in 2021 Q4 while production output declined in the final half of 2021. Whilst construction output fell in 2021Q4, it increased in the final quarter of 2021. As shown in Figure 5, construction sector output was severely

impacted by forced halts made in large projects during lockdown in the first half of 2020, but the sector was already experiencing falling output before 2020Q2. Since then, the construction sector output index has trended upwards to above the pre-pandemic level.

Figure 5.
Welsh output indices: trends 2018 Q4 - 2021 Q4 (2019=100)



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

Increase in both business births and deaths in Wales in the year to 2022 Q1

Data provided by the ONS indicate that the number of UK business births and deaths both increased in the first quarter of 2022.⁴¹ The number of business births in the UK increased by just over 136,000 during 2022Q1, a very similar number to the increase in UK business births in the first quarter of 2021. However, the number of business deaths in the UK in 2022Q1 was just over 137,000, which is 23% higher than the number of business deaths in the first quarter of 2021. All UK industrial groups, except agriculture, experienced an increase in firm closures during 2022Q1.⁴² All UK countries and regions experienced an increase in business births and closures in the first quarter of 2022, with the exception of Northern Ireland, where there was a very small decline in the number of business closures in 2022Q1.

The cyclical/seasonal picture of business births and deaths in Wales is shown in Figure 6, with the upturn in both indicators in 2022Q1. As in the UK, the number of business births in 2022Q1 is similar to the number in 2021Q1, and with the number of firm deaths in the latest quarter exceeding those in the first quarter

of 2021 (by 13%). During 2022Q1 there were 4,610 business deaths, and 4,715 business births in Wales. Figure 6 illustrates the volatility of this experimental data set since 2017.

According to the BVA BDRC SME Finance Monitor 2021 Q4⁴³, 25% of UK and Welsh SMEs surveyed in 2021 Q4 reported growth during the last year. By business size bands, this was led by SMEs with 10-49 employees where growth in the year to 2021 Q4 was 36%. In the other size cohorts, 24% of SMEs with 0 employees, 28% with 1 to 9 employees, and 23% with 50 to 249 employees, recorded growth during the last year. Of the UK SMEs surveyed in 2021 Q4, 44% reported that their business had declined in the last year, lower than the 54% indicated in 2021 Q3, and 64% in 2021 Q1. The corresponding figures for Welsh SMEs were 34% in 2021 Q4, 47% in 2021 Q3, and 64% in 2021 Q1. Decline was more likely in the case of the hospitality sector. Looking to the future, 44% of UK SMEs surveyed in 2021 Q4 anticipated growth in the next year, a drop of 8 percentage points from 2021 Q2.

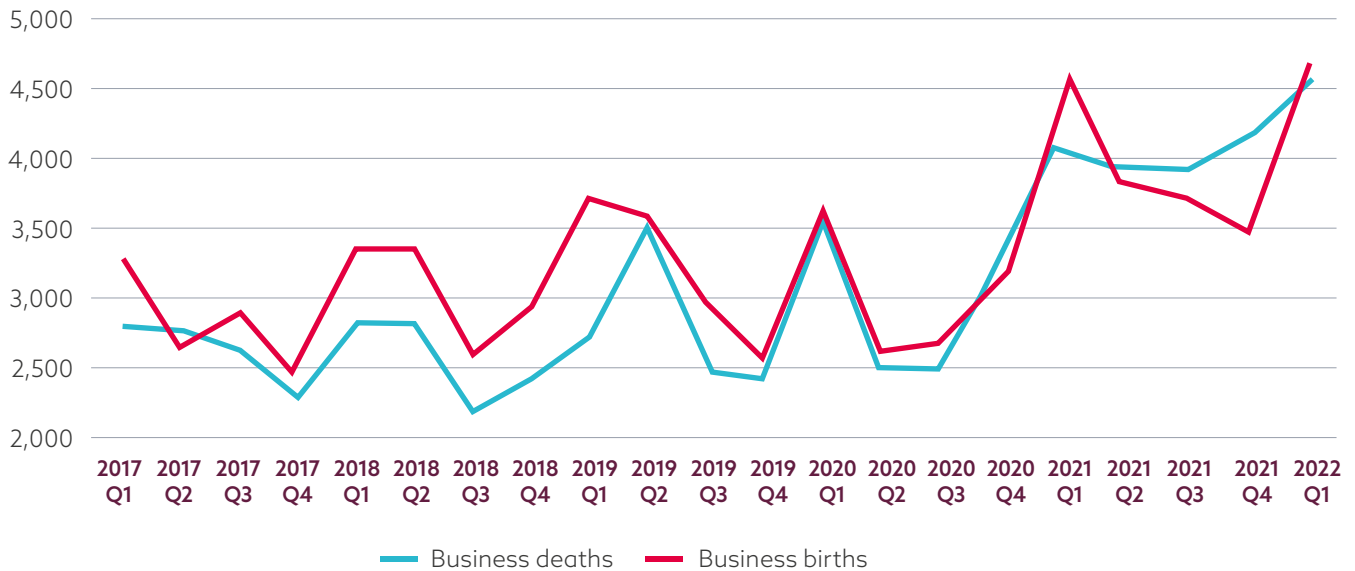
⁴¹ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/januarytomarch2022>

⁴² <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticsuk>

⁴³ <https://www.bva-bdrc.com/wp-content/uploads/2022/03/BVA-BDRC-SME-charts-Q4-2021-Final-all-slides.pdf>

Figure 6.

Number of business births and deaths in Wales, 2017Q1-2022Q1



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

In Wales, 28% of SMEs surveyed in 2021 Q4 expect to grow next year, down 21 percentage points on 2021 Q2. The survey reported that 34% of UK SMEs (and 36% of Welsh) saw the on-going impact of the pandemic as a major barrier for the next twelve months, an improving picture

from 51% in 2020 Q4. Increasing costs were also reported as a concern by 34% of UK SMEs (40% in Wales), while supply chain issues were raised by 23% of UK SMEs (Wales 22%), these two new barriers being added to the survey for 2021 Q4.

Quantifying the economic impact of Business Wales

A report by the Welsh Economy Research Unit (WERU) of Cardiff Business School, *Quantifying the Economic Impact of Business Wales*⁴⁴ (2021) indicated that support from Welsh Government's Business Wales service boosted the Welsh economy by an estimated £790m a year by mid-2021. The analysis found that more than 25,000 jobs had been created by the support from the service since 2015, with Business Wales also helping businesses generate a total of £469m in investment over the same period. The

Accelerated Growth Programme of Business Wales was estimated to have supported an export increase of around £266m⁴⁵ since 2015, the majority of this was in manufacturing and wholesale/ retail. Importantly, this export uplift is largely among firms in the smallest SME employment category (i.e., micro-firms). Diversifying the regional export base is critical in the period since the UK has exited the EU.

Covid-19 Welsh Government financial interventions as important as UK Government job furlough schemes monies in safeguarding employment

As part of a report on Covid-19 Welsh Government financial interventions: An analysis of administrative and beneficiary survey data⁴⁶, Economic Intelligence Wales have examined data from a survey of beneficiaries undertaken by Wavehill and ORS. Recipients of Economic Resilience Fund Phase 1 and 2, the Covid-19 Wales Business Loan Scheme, and the local authority managed Start-Up Grants scheme, were included in the survey. Among the findings were that, for Welsh SMEs, 86% of respondents agreed that the Welsh Government assistance received was as important as the UK Government job furlough schemes monies in safeguarding employment. While 58% of all respondents believed that all the jobs in their organisations were at risk at the time of their application for grant/loan funding, only 12% of respondents believed that jobs were not at risk.

The survey found that 23% of respondents had less employment than prior to the pandemic. However, 83% of these same enterprises revealed that some jobs were either saved or safeguarded as a result of Welsh Government assistance received. Some 28% of respondents believed Covid-19 had resulted in a sales fall of 50% or more in the latest organisation reporting period and another 30% believed the Covid-19 impact was a sales decrease of between 20% and 50%. In this context the maintenance of employment in the respondents' businesses is testament to the joint effects of the furlough scheme and Welsh Government assistance in as much as employment declines did not match the severity of the decline in output.

⁴⁴ Full report available at: <https://businesswales.gov.wales/sites/main/files/documents/Impact%20of%20Business%20Wales%20Report%20-%20ENGLISH.pdf>
Summary version available at: https://businesswales.gov.wales/sites/main/files/documents/WG44020%20Business%20Wales%20Impact%20Study%20%28E%29_WG_0.pdf

⁴⁵ This increase in exports if maintained from year to year should be viewed in the context of total exports from Wales averaging £15.9bn per annum between in 2015-2019 (i.e. prior to the Covid-19 disruption). See "Value of exports to destinations outside the UK" at: <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Exports/welshexports-by-quarter-destination>

⁴⁶ https://developmentbank.wales/sites/default/files/2022-04/EIW%20Bespoke%20Report%202022%20Covid-19%20intervention_ENGLISH-v4.pdf

An increase in the value of Welsh goods exports during 2021

The latest available HMRC Regional Trade in Goods Statistics relates to 2021 Q4⁴⁷, with this period covering the first four quarters of trade following Brexit, and the continuing COVID-19 pandemic. These data show an increase in the value of goods exports for all UK countries except Northern Ireland in the twelve months ending December 2021 compared with the previous twelve months.

In Wales goods exports increased by 12.4% to £15.2 billion over the year to December 2021 (compared to an increase of 6.7% in England, and 1.6% in Scotland). The value of goods imports grew in all UK countries in the year to December 2021 compared with the previous twelve months. In Wales the value of goods imports increased by 13.2% to £16.1 billion over this period (compared to increases of 9.2% in England, 24.1% in Scotland, and 12.8% in Northern Ireland).

Whilst the value of UK goods exports has risen during 2021, analysis of UK-EU trade in goods data, by the LSE Centre for Economic Performance, suggests that the UK's post Brexit trade arrangement (the Trade and Cooperation Agreement, TCA) has resulted in a 'steep decline' in the number of export relationships.⁴⁸ This research aimed to distinguish the 'Brexit effect' from other causes of trade changes (such as the pandemic). The research stated that '... the TCA has increased the fixed costs of exporting to the EU, causing small exporters to exit small EU markets, but not (or at least not yet) severely hampering exports by the large firms that drive aggregate export dynamics'. In addition, a House of Commons Committee report stated 'new border arrangements have added costs to business'.⁴⁹

⁴⁷ <https://www.uktradeinfo.com/trade-data/regional/2021/uk-regional-trade-in-goods-statistics-fourth-quarter-2021/>

⁴⁸ <https://blogs.lse.ac.uk/businessreview/2022/04/26/brexit-the-major-trade-disruption-came-after-the-uk-eu-agreement-took-effect-in-2021/>

⁴⁹ <https://committees.parliament.uk/committee/127/public-accounts-committee/news/160856/clear-increase-in-costs-paperwork-and-border-delays-for-uk-business-since-brexit-not-helped-by-repeated-delays-to-new-import-regime/>

- Bank lending returns to levels last seen prior to the Covid-19 pandemic.
- In the year to 2021 Q2 total bank lending in Wales was estimated at £20.46bn, and with Swansea postcode areas accounting for 30.8% of the total and Cardiff 24.7%.
- SME Finance Monitor for Wales in 2021 Q4 identifies the increasing cost pressures facing SMEs in Wales; 37% of Welsh SME respondents revealed that they had been significantly impacted by increasing costs.

The challenges presented by Covid-19 for small firms have been partly replaced with new concerns over cost inflation and increasing interest rates. In May the Bank of England rate was increased by 0.25 percentage points to 1% (the fourth consecutive increase). The supply side of bank lending to small businesses has seen something of a return to more normal conditions. It is estimated that around 0.6m small firms borrowed for the first time during the Covid-19 period according to the British Business Bank Small Business Finance Markets for 2021-22.⁵⁰ They also reported that bank lending had returned to levels last seen prior to the Covid-19 pandemic.

Gross bank lending flows expanded during the height of the Covid-19 pandemic to around £104.9bn in 2020. This compared with around £56.9bn in 2019. For 2021 the figure has come down to £57.7bn. Despite this reduction in bank lending flows, there has been some growth in the flow of SME external finance coming from private equity. For example, in the period 2021 Q1-Q3 private equity investments in SMEs had reached £14bn, and with this compared to a total for the whole of 2020 of £8.7bn. For 2021 Q1-Q3 the number of UK equity deals was estimated at 1,811 an increase of 20% compared to the same period in the previous year. Asset finance flows to SMEs also grew from £16bn in 2020, to £19.9bn in 2021.

A low number of equity deals, but the value of deals increased in Wales

The strong growth in equity deals in 2021 has been geographically uneven. The Small Business Finance Markets results for Wales revealed just 42 equity deals in 2021 Q1-Q3 which represented a 30% fall on the same three quarters in 2020 (and with Wales accounting for just 2% of the number of UK deals). More positively the amount of equity investment in Wales was £63m which was up 14% on the same period in the previous year. London and the South East

combined accounted for an estimated 60% of equity deals in 2021 Q1-Q3, and close to 80% of the value of investments. The disparity in the supply side can be illustrated with information on unique investors. In 2021 Wales was reported as having five unique investors where venture capital was listed as the main investment category; in London the same figure was 581.

⁵⁰ [Small Business Finance Markets 2021/22 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-finance-markets-2021-22)

Demands from SMEs for finance set to increase

The Bank of England Credit Conditions Survey⁵¹ for 2021 Q4 revealed that the aggregate supply of corporate credit saw very little change in the three-month period ending November 30th, 2021 (a positive percentage balance of 3.5%⁵²), and with some expectation that these conditions would change little into the period December 2021 to end February 2022 (net percentage balance of 2.8%). However, respondents to the survey revealed that small firm demand for finance had decreased very slightly in the fourth quarter, demand from medium-sized firms was unchanged, but demand from large firms had increased. For the three-month period to the end of February 2022 the expectation of lenders was that demands for finance from smaller firms would increase, while being largely unchanged from firms from other size classes.

The Credit Conditions Survey also revealed factors that lenders believed were working to change the availability of credit. In the period September to November 2021 the main factors were the changed economic outlook and new market share objectives of firms. However, for the three-month period to end February 2022 key factors positively affecting credit availability were seen as changed economic outlook and changing sector specific risks. It will be interesting to observe how these lender expectations will change following the Russian invasion of the Ukraine.

⁵¹ [Credit Conditions Survey - 2021 Q4 | Bank of England](#)

⁵² The Bank of England states that: "To calculate aggregate results, each lender is assigned a score based on their response. Lenders who report that credit conditions have changed 'a lot' are assigned twice the score of those who report that conditions have changed 'a little'. These scores are then weighted by lenders' market shares. The results are analysed by calculating 'net percentage balances'. The net percentage balances are scaled to lie between (+/-)100.changes in balances are described as an 'increase' if greater than 10 in absolute terms, as 'slight' if between 5 and 10 and as 'unchanged' if less than 5.

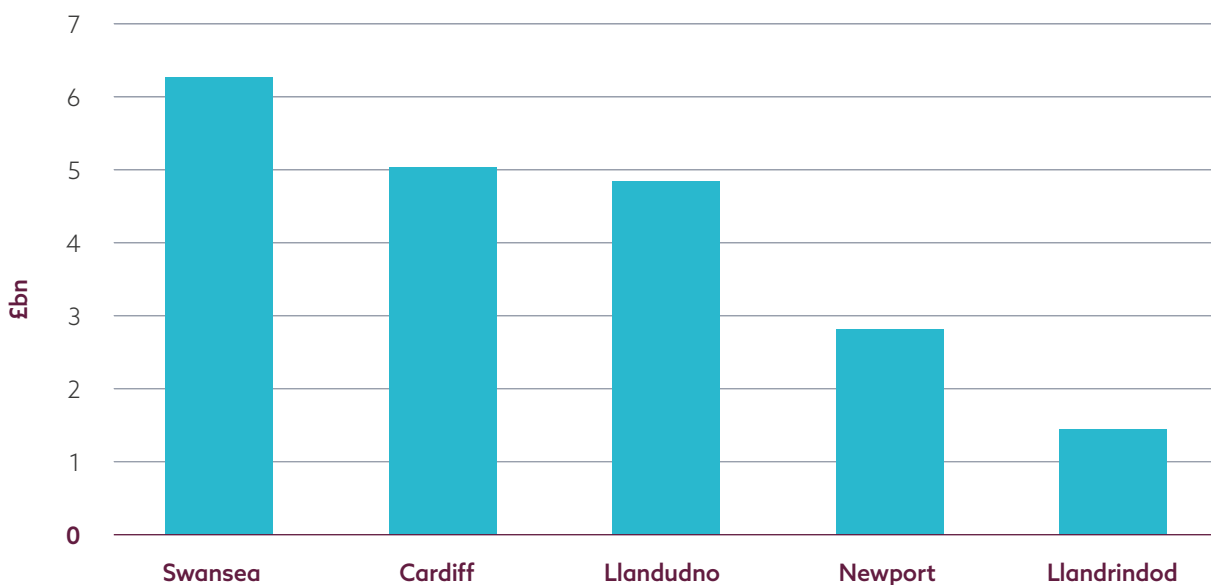
Swansea and Cardiff postcodes dominate in terms of bank lending to SMEs

Figure 7 reveals postcode SME lending data for Wales from 2019Q1-2021 Q2.⁵³ In the year to 2021 Q2 total lending was estimated at £20.46bn,

and with Swansea postcode areas accounting for 30.8% of the total and Cardiff 24.7%.

Figure 7.

Lending to SMEs in Wales, £bn by postcode; Year to 2021 Q2



Source: [SME Lending within UK postcodes | UK Finance](#)

The strongest growth in the year to 2021 Q2 was in the Cardiff postcode area where lending increased from £3.75bn to £5.06bn (an increase of close to 35%). For the Swansea

postcode area lending increased in the year to 2021 Q2 from £5.36bn to £6.31bn (an increase of 18%). Overall levels of lending for Wales grew by 22% in the year to 2021 Q2.

⁵³ Note this does not include some Shrewsbury postcodes that are in Wales.

Recent surveys suggest increasing SME concerns over costs

The BVA BDRC SME Finance Monitor survey⁵⁴ results are now available for 2021 Q4. The survey findings underline increasing small business concerns over increasing costs, and with these pressures expected to have increased markedly in the first quarter of this year. The survey revealed that some 43% of UK SMEs had used externally generated finance in 2021, compared to 37% in 2020. The growth in the use of external finance last year was evidenced particularly in smaller SMEs. The group with the highest use of external finance was SMEs employing between 10-49 people (62% used external finance).

In terms of industry, relatively higher levels of external finance use were found in the hotels and restaurant sector (55% of firms using external finance). The SME Finance Monitor also revealed that since 2019 (pre Covid-19) there has been a shift to greater SME use of bank loans as opposed to overdraft facilities. Overall, some 21% of UK SMEs in 2021 were borrowing at higher levels than pre pandemic, 11% had started borrowing, 7% had taken on additional facilities and 3% were making more use of existing facilities. Of continuing concern in the survey findings is the proportion of new borrowers (an estimated third) with concerns on meeting repayments.

Other highlights from the UK SME Finance Monitor included:

- The proportion of survey respondents having over £10,000 in credit balances had grown to 35% for Q4 2021. In 2019 the comparable figure was 23%.
- In 2021, 12% of respondents revealed that they had a need for funding, and with this an increase on 9% in 2020 and 3% in 2019. The majority of those stating a need highlighted the requirement in terms of cash flow support (81%).
- 17% of SMEs reported a borrowing event in 2021, slightly higher than pre-pandemic (13% in 2019) but declining during 2021 from 20% in Q1 to 14% in Q4. Very few had been a Would-be seeker of finance (4%), leaving the largest group as usual the Happy non-seekers (79%). 39% of SMEs in 2021 met the definition of a Permanent non-borrower who seem firmly disinclined to use finance, somewhat lower than the 47-48% of SMEs typically meeting the definition pre-pandemic, as well as below the proportion using external finance (43%).

⁵⁴ https://www.bva-bdrc.com/wp-content/uploads/2022/03/BVA-BDRC_SME_FM_Q4_2021_Report_Final.pdf

Some 8% of Welsh firms had plans to borrow in 2021

It is also possible within the SME Finance Monitor to identify results from Welsh SME respondents although some care is required here because of small sample sizes in response to selected questions. The 2021 Q4 Welsh data revealed that during 2021, 8% of SMEs had future plans to borrow or renew finance; 76% were happy non-seekers, 1% were seekers with immediate need and 15% were finance seekers with no immediate need. For the final quarter of 2021 the respective figures were 7%, 78%, 0%, and 15% respectively. For 2021 Q4 just 6% of Welsh SMEs suggested that access to external finance was an important obstacle for their businesses in the following 12 months.

The results for Wales in 2021 Q4 also started to identify the increasing cost pressures facing SMEs in Wales. For example, in 2021 Q4 some 37% of Welsh SME respondents revealed that they had been significantly impacted by increasing costs, 34% has been somewhat impacted, and with just 29% not really impacted at all. However, 86% of SMEs who described themselves as fully international had been significantly impacted by cost increases.

In terms of the forms of external finance being used by Welsh SMEs in 2021 Q4, 19% of respondents used bank loans, 14% grants, 29% bank overdrafts, 11% leasing/hire purchase and 18% credit cards.

The importance of relationship banking to SMEs

During the Covid-19 pandemic period there has been some research interest on what would occur in terms of trends in relationship banking, particularly in the context of changes in the number of branches being closed by UK retail banks. Welsh respondents to the SME Finance Monitor survey were asked what best described your relationship with your main bank. For 2021 Q1-Q4 some 21% of respondents believed they

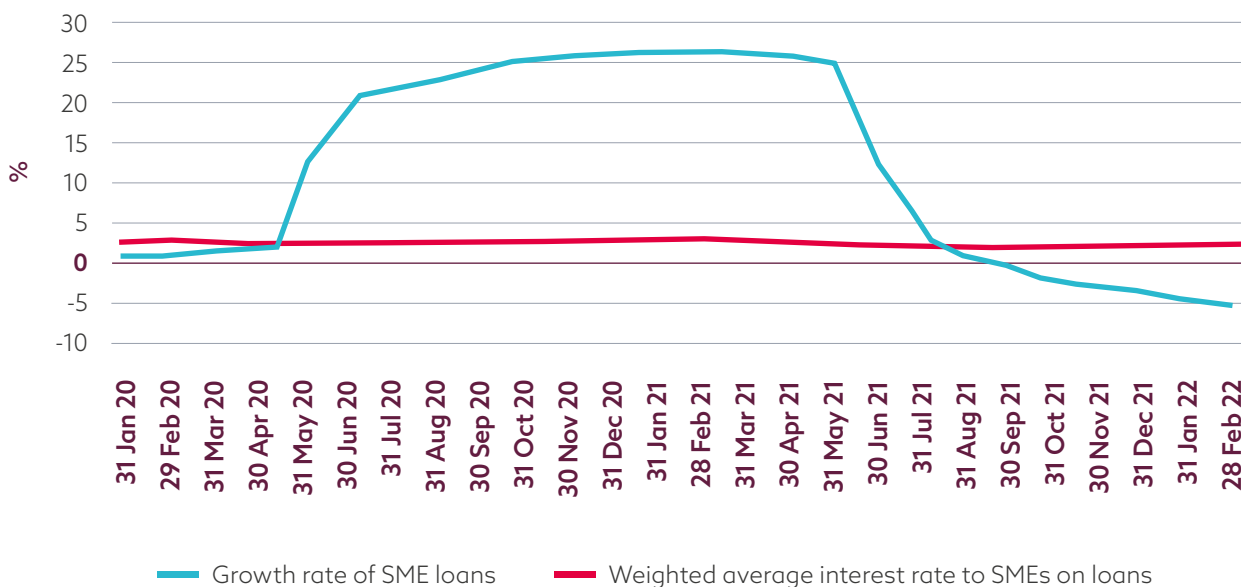
had a strong relationship with their bank and could approach them when needed. 61% of respondents argued that their bank relationship was fine but that they just used the bank for transactional matters, and rarely approached them directly. Just 18% of respondents revealed that they had no working relationship with their bank and wished they had one.

Increasing costs of external finance

Moving further into 2022 there are also emerging concerns over the increasing cost of business credit. Figure 8 reveals information from the Bank of England with estimates of UK resident bank weighted average interest rate to SMEs. This reveals a small increase

reaching an average of 3.01% by end of February 2022. The same Figure reveals the monthly growth rate of loans to SMEs and with this reducing each month since September of 2021. This rate fell to -4.7% in February 2022.

Figure 8.
Interest rate on UK SME loans, and growth rates of loans



Note: Selected series only. Monthly 12-month growth rate of monetary financial institutions' sterling and all foreign currency loans to small and medium sized enterprises (in percent) seasonally adjusted (series RPMZO8M); Monthly average of UK resident banks' sterling weighted average interest rate - other loans, floating rate linked to Bank Rate (<3mth reset) to small and medium sized enterprises (in percent) not seasonally adjusted (series CFMZ6HQ).

Source: Bank of England Effective Interest Rates. <https://www.bankofengland.co.uk/statistics/visual-summaries/effective-interest-rates>.

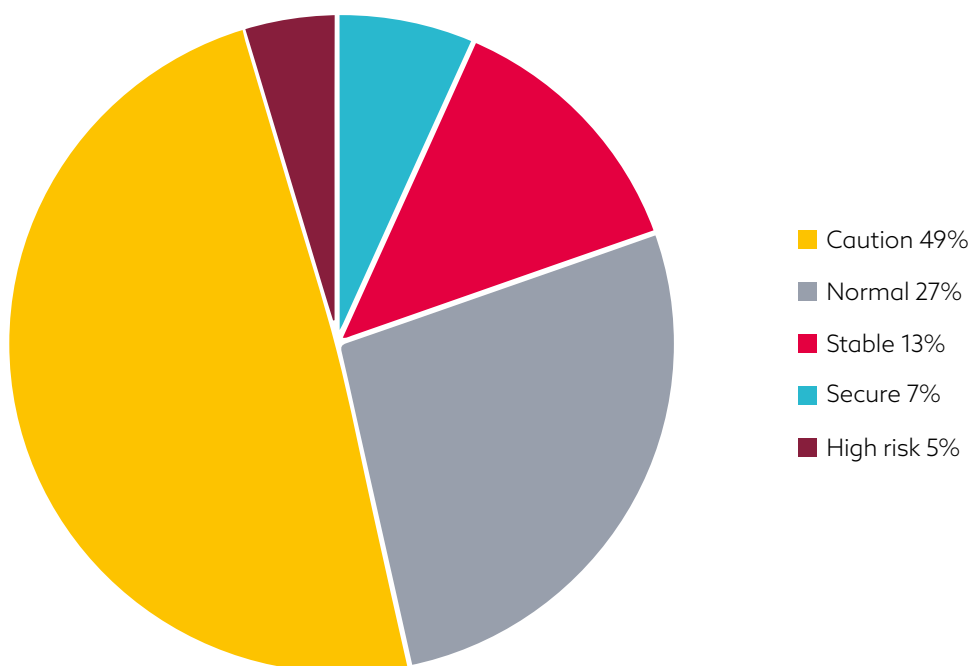
Around 5% of Welsh SMEs have high risk of failure

Finally, one factor affecting the willingness of banks and others to finance SMEs is their credit riskiness. There are a variety of possible methodologies for measuring credit risk. This report uses estimates derived from the FAME Bureau van Dijk database which allocates firms to either Secure, Stable, Normal, Caution or High credit risk. As a guide the likelihood of a firm ranked as Secure failing within the next accounting period is around 1%, a company ranked as Normal has a likelihood of failure of around 5%, whereas a company ranked as High Risk could have a likelihood of failure of up to 20% in the next financial period.

Figure 9 provides the results of an analysis of the FAME database for Welsh SMEs at the end of March 2022. This reveals that over half of Welsh SMEs were accorded either a Caution or High Risk rating, with 4.6% accorded the most serious High Risk rating. Around one in 5 Welsh SMEs were accorded a Secure or Stable rating. It is difficult to compare findings from period to period on the FAME database and with the population of SMEs quite dynamic. For example, it is difficult to assess how many of the previously ranked High Risk SMEs subsequently drop out of the database through time.

Figure 9.

Estimated percentage of Welsh SMEs falling into different credit risk brackets, March 2022



Source: FAME database

- In 2021/22 Q3 the Development Bank of Wales completed 243 investment transactions, with a total value of almost £28m. These investments were associated with around 760 new and safeguarded jobs.
- Mid and South West Wales had a strong performance in the value of new investments, and associated employment in the quarter to 2021/22 Q3.
- Around 60% of investments in third quarter in the construction and manufacturing sectors.

In the year to 2021/22 Q3 the Development Bank of Wales made a total of 378 investments, supporting an estimated 826 new jobs and 1,085 safeguarded jobs. These investments were completed via 682 investment transactions.

Figure 10 reveals a growing trend in investment transactions completed during the last three quarters. For example, in 2021/22 Q2 there were 226 investment transactions completed, growing to 243 by 2021/22 Q3.

Figure 10.

Investment transactions and jobs created and safeguarded, 2021/22 Q1-Q3

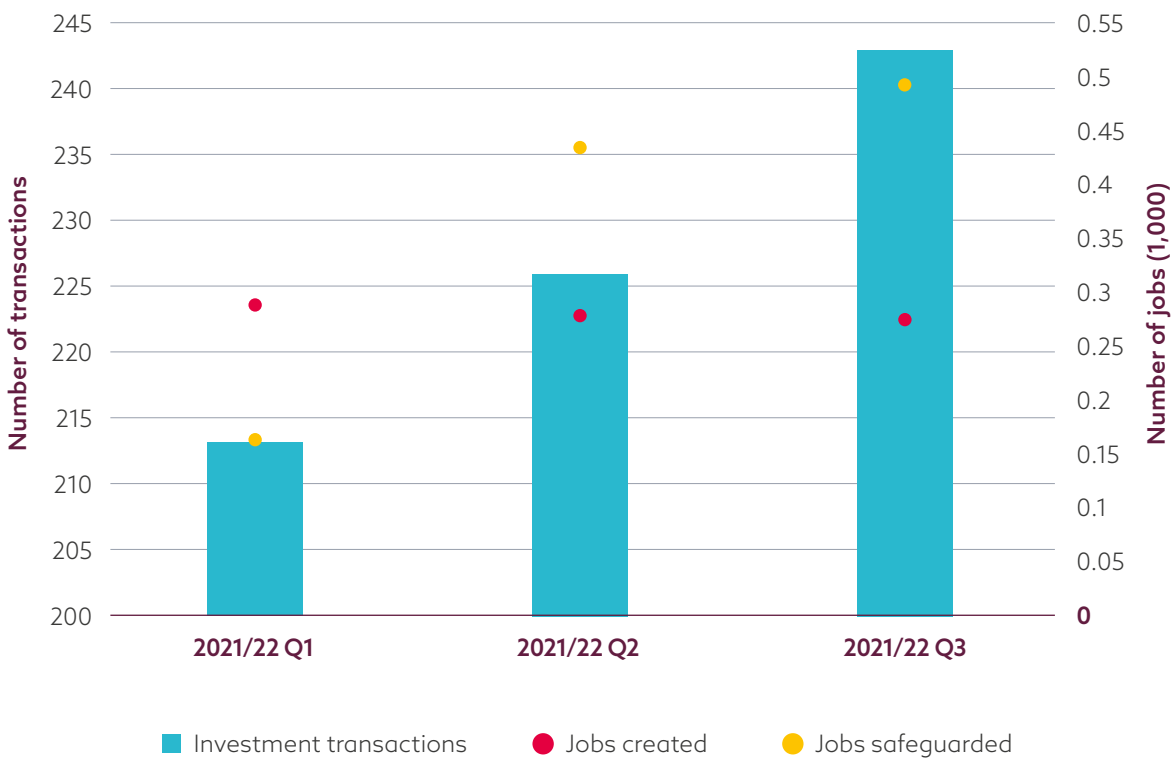


Figure 11 reveals the total values relating to investments in the year to 2021/22 Q3. The total value in the year to 2021/22 Q3 was £79.06m. Around 9.8% of these investments were in terms of equity, and with 90.2% being loans. In the

latest quarter (2021-22 Q3) equity investments totalled £1.9m, and loan investments were £26m. Equity investments fell from a particularly high figure of £5.0m in 2021-22 Q2.

Figure 11.

Investments, £m, year to 2021/22 Q3

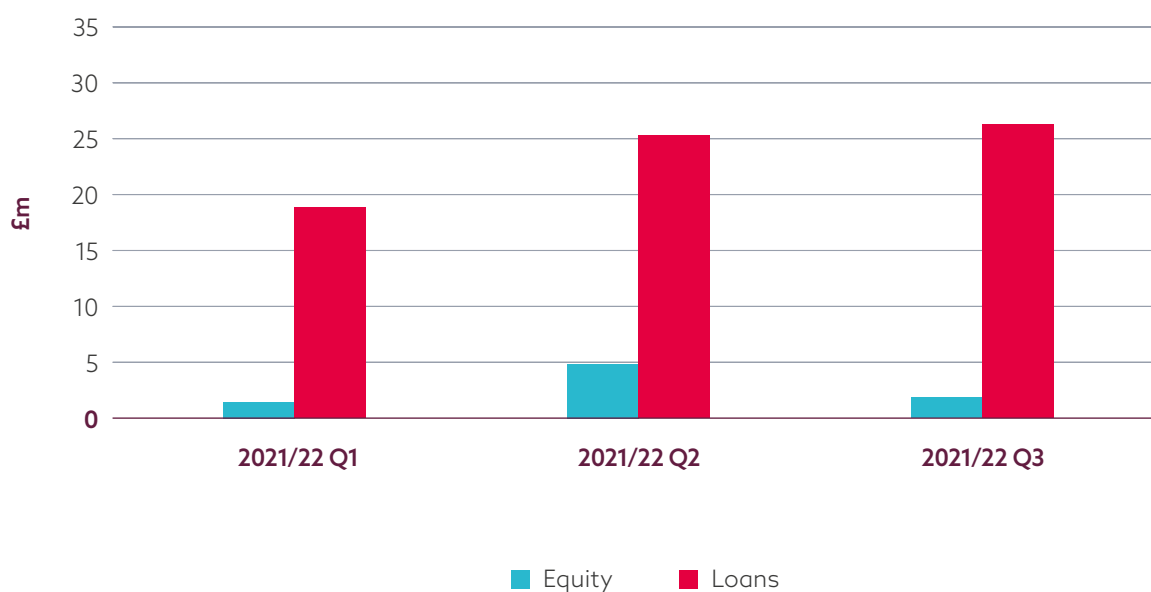


Figure 12 explores the regional distribution of investment within Wales, jobs created or safeguarded by these investments, and changes in the last reported quarter. Mid and South West Wales had a particularly strong performance in the quarter to 2021/22 Q3. The area received £9.3m of investment and 413 jobs either created or safeguarded by these investments. This represented a third of Development Bank of Wales investments in the

third quarter, and with the amount of investment up over 52% on the previous quarter. Both North and South East regions had a reduction in investment in 2021-22 Q3. For example, in North investment fell from £9.7m to £6.1m, while in the South East the value fell from £14.6m to £12.5m. These quarterly trend figures need to be treated with some caution as they can be influenced by singly large investments.

Figure 12.

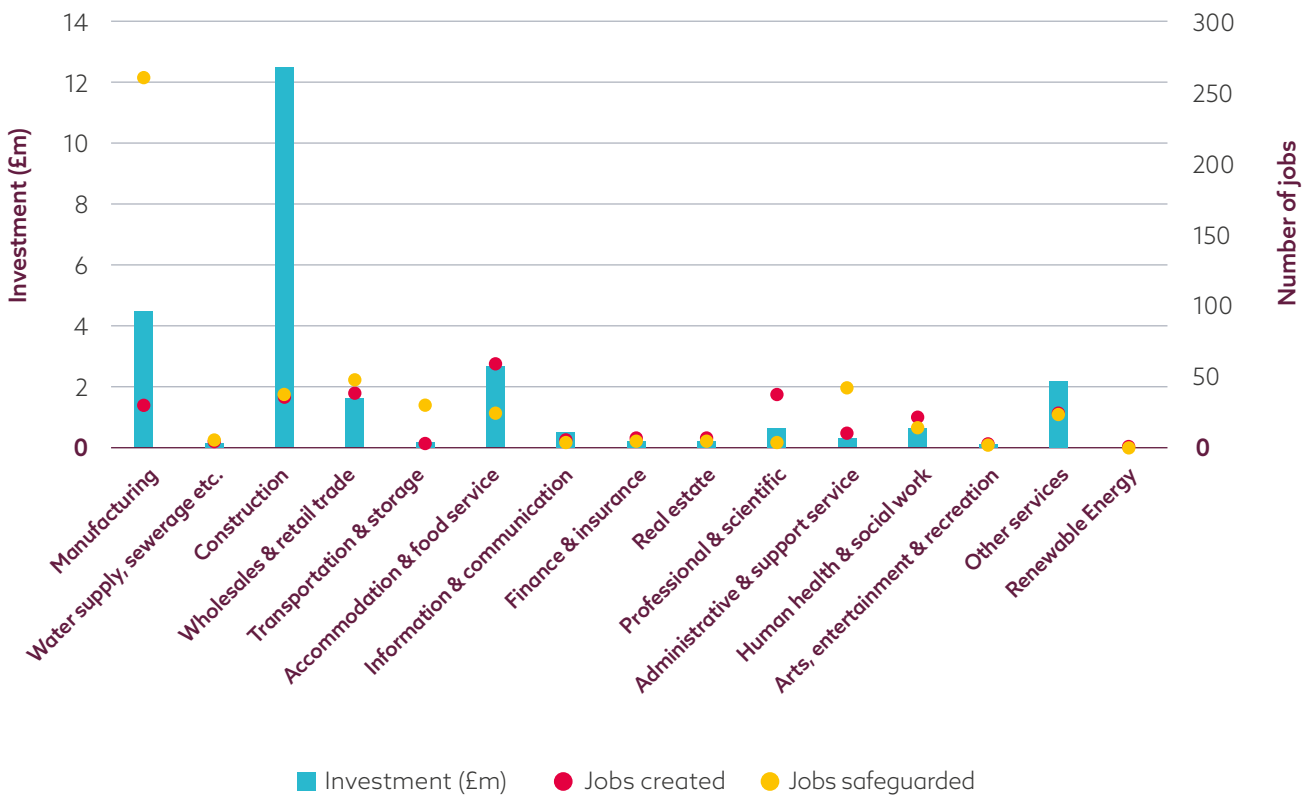
Regional breakdown of investment and associated employment 2021/22 Q2-Q3



Finally, Figure 13 reveals how investment and associated employment was distributed by industrial sector in 2021-22 Q3. Of the £27.9m total investments made in the quarter, 62% represented investments in the construction and manufacturing sectors of the economy. However, the £12.9m of investment in the construction sector

yielded 69 new or safeguarded employment opportunities, while the £4.6m investment in the manufacturing sector yielded 286 employment opportunities. The only other sectors where investment amounts in the third quarter exceeded £2m were Accommodation and food services and Other services.

Figure 13.
Investment and associated employment by industry 2021/22 Q3



Following some cautious optimism for 2022 as suggested in the previous Quarterly report, this report is published at a time of increasing global uncertainties, most significantly relating to the war in the Ukraine and China's zero-Covid-19 policy. These uncertainties are contributing to the already significant pressures on the UK and Welsh economies.

In the first quarter of 2022 the UK economy was still experiencing positive economic growth. There are however concerns about the fragility of this growth, and the possibility of a period of stagflation in the UK. The services sector has led the growth of UK GDP in recent months, but this is now increasingly threatened by the accelerating cost of living crisis and with some near real-time indicators suggesting that consumer confidence is declining, with some slow-down and 'flat lining' in retail and entertainment related activities.⁵⁵ As indicated by the Bank of England, there is the prospect of a fall in GDP growth in 2023.

Emerging strongly from surveys of SMEs are concerns about input cost pressures. The FSB note that 'soaring inflation is "unmanageable" for small firms.'⁵⁶ With input cost inflation far exceeding consumer price inflation, the squeeze on small firms in particular is likely to be severe, with expectations of still higher inflation to come. The already low levels of UK business investment are likely to be further impacted this year as many businesses focus on survival. Those businesses seeking external finance will face an increase in the cost of that finance this year as the Bank of England's base rate of interest has been moving slowly upwards, with the increase in May taking the rate to 1%.

One of the few positive signs in the economy relate to the relatively strong labour market, particularly in Wales, although with evidence that UK labour markets are becoming increasingly 'tight', as vacancies increase, and unemployment decline. Some sectors of the Welsh economy are experiencing severe labour shortages, for example in the hospitality industry. These service sectors of the economy had been performing strongly since the Covid-19 restrictions eased.

Another positive has been the increase in the value of goods exports from the UK and Wales during 2021. However again there are some notes of caution. The headline data, which is dominated by large firms, may be masking the potential impacts on small firm exporters, with research suggesting many of trade relationships have ceased as a result of the higher fixed costs of exporting to the EU.

The strains on the public finances mean there is unlikely to be any significant additional government support for households and businesses in response to these changing economic conditions. The role of the Development Bank of Wales will then be increasingly important in supporting SMEs in Wales to navigate the challenges, particularly in terms of cost and working capital pressures in 2022.

⁵⁵ <https://www.ft.com/content/64db3dcf-23ff-4f69-9a4c-d684675b596b>

⁵⁶ <https://www.fsb.org.uk/resources-page/fsb-newsletter-thursday-14-april-2022.html>

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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Economic Intelligence Wales



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developmentbank.wales

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