

Economic Intelligence Wales

Quarterly report

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Executive summary

- UK GDP, labour market, exports and business investment indices all improved in 2021 Q3, with many Covid-19 restrictions being lifted.
- The Small Business Confidence Index remained positive, although declining in the quarter to 2021 Q3 in the UK and Wales.
- Business births fell sharply in Wales during 2021 Q2 and 2021 Q3, and whilst these were still relatively high, the number of business deaths exceeded births.
- The total value of UK goods exports and imports increased in the year to September 2021. However, the values of both goods exports and imports were below the values for the period to September 2019 in the UK and in Wales.
- The Bank of England increased interest rates at the end of 2021 and in February 2022. Further increases are expected in response to inflationary pressures within the economy.
- The Development Bank of Wales has played an important role in the Welsh business recovery, having invested around £30m in 2021/22 Q2 alone, creating 262 jobs and safeguarding around 433 jobs.

The beginning of the 2022 calendar year is marked by the continued global efforts to end the Covid-19 pandemic and to address related economic and social impacts. After the lifting of many restrictions, many economic indicators for the UK showed an improved picture in 2021 Q3. This was in advance of the partial reintroduction of restrictions due to the increasing cases of the Omicron variant of Covid-19.

Following the global economic contraction in 2020, both the **IMF and OECD downgraded their forecast for the world economy in 2021. The IMF from 6% annual GDP growth (in the July forecast) to 5.9% (in the October forecast), and OECD from 5.8% (in July) to 6% (in December). The average unemployment rate across OECD countries increased from 5.4% in 2019 to 7.1% in 2020. It is, however, projected by OECD to have fallen to 6.2% in 2021, and to further decline to 5.5% in 2022.**

This Quarterly report shows that UK GDP increased by 1.3% in the quarter to 2021 Q3, reflecting the easing of Covid-19 restrictions. **The estimates for November 2021 suggest**

that UK GDP exceeded pre-pandemic levels, providing some optimism prior to the surge of Omicron cases. The Bank of England projects that UK GDP will have risen by 7% in 2021, down from its August projections (7.25%). The latest available quarterly GDP estimates for Wales for 2021 Q1 show a quarterly decline (-1.7%), following a 1.2% increase in the quarter to 2020 Q4. Following a 2.3% contraction in 2021 Q1, UK business investment increased by 2.4% in 2021 Q2 and recorded a modest growth of 0.4% in 2021 Q3, but remaining more than 12% below the pre-pandemic levels of 2019 Q4.

Signs of labour market recovery have become stronger in 2021. **The UK unemployment rate declined from 4.9% in 2021 Q1 to 4.6% in 2021 Q2 and further to 4.3%,** while in Wales, the unemployment rate recorded a decline, from 4.4% in 2021 Q1 to 4.1% in 2021 Q2 and further to 3.8% in 2021 Q3. **Early insights for the period between September to November 2021 show that the UK redundancy rate decreased to a record low (2.8 per 1,000 employees), with Wales recording the**

Executive summary

According to the BVA BDRC SME Finance Monitor, **15% of UK SMEs surveyed in the three months to August 2021 reported growth in the previous year, equal to 2021 Q2, but much lower than the 37% in 2019. The Business Impacts and Conditions Survey for the period from 13th to 26th December 2021 showed that 99.7% of firms surveyed in Wales continued to trade, the highest rate across the UK regions.**

Welsh SME confidence remains positive

Wales saw positive SME confidence, although falling from +34 in 2021 Q2 to +17 in 2021 Q3.

It is over a year after the end of the Brexit transition period and the implementation of the new trade rules between the UK and EU. In the year to September 2021, the total value of UK goods exports increased by 3.4%, while the value of goods imports increased by 8.2%. However, in the UK and in Wales, the value of both goods exports and imports in the year to September 2021 were below the values for the year to September 2019. **In Wales, in the year to September 2021, the value of goods exports were almost 20% below, and goods imports were just over 17% below, the values for the year to September 2019.**

According to the Business Impacts and Conditions Survey for the period from 13th to 26th December 2021, **around 6.5% of Welsh firms surveyed had made changes to supply chains as a result of problems in the EU transition period, the lowest rate among the UK regions, while almost 46% of these firms decided to use more UK suppliers, the highest across the UK.**

In the BVA BDRC SME Finance Monitor, **UK SMEs that use external finance rose from 42% in 2021 Q1 to 45% 2021 Q2 and further to 47% in the three months to August 2021.**

The appetite for future finance has increased, with four out of ten UK SMEs being happy to use external finance to help the business grow. According to BICS from 27th December 2021 to 9th January 2022, debt repayments were between 50% and 100% of turnover over the previous month for around 3% of Welsh respondents, while for 25% of respondents they were below 20% of turnover. Nevertheless, the risk of default remains relatively high. Around 11% of surveyed Welsh companies indicated a moderate risk of insolvency in the BICS survey, the highest among the UK regions.

According to the BVCA Investment Activity Study 2020, around 4% of UK firms that received investments in 2020 were located in Wales, down from 5% in 2019 and 7% in 2018. The amount invested in firms in Wales was 1% of the total investment in 2020. Equity investments were made in Welsh firms during the challenging period of the pandemic, particularly in ICT, business products and services, as well as biotech and healthcare sectors. **The geography of equity investments reveals that most investor-investee pairings in Wales involved an investor with an office more than two hours travelling distance away from the recipient business,** highlighting the lack of equity investors in Wales. **Most equity deals in Wales involved firms located in Cardiff, Swansea and Newport.**

In the second quarter of 2021/22, the Development Bank of Wales made a total of 226 investment transactions linked to 136 deals. The value of new deals made by the Development Bank during 2021/22 Q2 summed to over £30m, creating 262 jobs and safeguarding 433 jobs.

This is the second Economic Intelligence Wales Quarterly report for the 2021/22 financial year. This Quarterly report 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 important financial and economic effects of the mitigation measures, some of which were more recently reintroduced at the end of 2021 in response to the spread of the Omicron variant. The pandemic-driven implications for economies and labour markets are likely to be persistent, although forecasts for economic recovery reflect the relative improvement in health outcomes in many developed states in 2021.

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. 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 for a second consecutive quarter in 2021 Q3. In November 2021 ONS estimated UK GDP exceeded its pre-pandemic level.
- The UK employment rate increased, and the unemployment rate fell, in the quarter to 2021 Q3. In Wales, the employment rate was lower than the UK in 2021 Q3, and below pre-pandemic 2019 Q4 levels, while the unemployment rate was slightly below the UK rate.
- The National Institute of Economic and Social Research (NIESR) forecasted that GVA in Wales will exceed the pre-pandemic (2019 Q4) level by 2022 Q4. However, these forecasts were made before restrictions were reintroduced towards the end of the 2021 due to a surge in Omicron infections.
- The Coronavirus job retention scheme closed in September 2021 with total furloughed employments of 11.7m in the UK and 475,000 in Wales.

Following the global economic contraction in 2020 (-3.6% growth of GDP), the global economy started to recover from the pandemic during 2021, although the pace and scale of recovery has varied significantly by country.

The IMF forecast¹ reported a slight downward revision for the recovery in the global economy in 2021 (from 6% annual GDP growth in the July forecast to 5.9% in the October 2021 forecast). This was due to the downgrade in advanced economies resulting from supply disruptions. The forecast for 2022 has remained unchanged (4.9% annual global GDP growth). The OECD² also downgraded its forecast for the world economy in 2021 (to 5.6% annual GDxP growth in the December forecast from 5.8% in the July 2021 forecast), while projecting a 4.5% global GDP growth in 2022. While output in many OECD economies has surpassed the levels of late-2019, this has not been the case in countries with stricter mitigation measures and/or lower vaccination rates, with this indicating a geographically uneven economic recovery.

The implications for labour markets are more uncertain, with job-seekers in some countries struggling to find employment, while firms in certain sectors face difficulties recruiting workers. Significantly, the skills that businesses demand may have changed in the post-pandemic era. The average unemployment rate across OECD countries has increased from 5.4% in 2019 to 7.1% in 2020. It is, however, projected to fall to 6.2% in 2021 and further to 5.5% in 2022.³

The post-pandemic surge in demand, supply chain pressures, transportation costs and energy costs have all contributed to global inflationary pressures. The OECD forecasted that the rate of inflation will have reached 5.2% in the OECD countries and 4% in the Eurozone at the end of 2021. This was up from 1.2% and -0.3% in the end of 2020.⁴ It should be noted that there are still high levels of uncertainty around all economic forecasts due to the wider uncertain trajectories of the pandemic. The Bank of England expect inflation to reach over 7% by spring 2022 and then start to fall.⁵

¹ www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021

² www.oecd-ilibrary.org/sites/66c5ac2c-en/index.html?itemId=/content/publication/66c5ac2c-en

³ stats.oecd.org/index.aspx?DataSetCode=EO

⁴ www.oecd.org/economic-outlook/

⁵ www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising

UK GDP increased in the quarter to 2021 Q3.

Following the UK's largest annual economic contraction on record (9.9% decline in 2020), a quarterly GDP fall of 1.4% in 2021 Q1 and an increase of 5.5% in 2021 Q2 (revised figures), the UK economy grew by 1.3% in the quarter to 2021 Q3.⁶ In 2021 Q3 UK GDP was still 2.1% below the last pre-pandemic quarter (2019 Q4). The improved UK GDP performance in 2021 Q3 was replicated in Canada, Germany, Spain, France, the USA and Italy, with the UK recording the third weakest growth, above Canada and the USA. However, monthly estimates for November 2021 show that UK GDP exceeded pre-pandemic levels. ONS figures indicate that GDP in the UK increased by 0.9% in the month to November 2021, with UK GDP being 0.7% higher than in March 2020

(i.e. before the first lockdown). This GDP growth raised optimism ahead of the rapid spread of Omicron and the reintroduction of some restrictions to varying extents across the UK.

Following a quarterly increase in 2021 Q2 (7.2%), household consumption further increased in the quarter to 2021 Q3 (2%). This was partly driven by the easing of coronavirus restrictions. However, household consumption was still 4.4% lower in 2021 Q3 than in 2019 Q4. Following a similar pattern, a growth in government consumption was a contributor to quarterly GDP increases. Government consumption grew by 0.9% in 2021 Q3, after an increase of 6.1% in 2021 Q2. The increase in government consumption was primarily driven by health sector consumption.

UK business investment increase was weak in 2021 Q3

Following a 2.4% increase in 2021 Q2, UK business investment recorded modest growth of 0.4% in 2021 Q3. This was more than 12% below the pre-pandemic levels (2019 Q4).

The number of UK vacancies hit a record high (1,247,000) from October to December 2021, up by 462,000 vacancies from January to March 2020.⁷ According to the Bank of England Monthly Decision Maker⁸, respondents perceiving the level of economic uncertainty as high fell from

57% in February to 50% in June and further to 48% in December 2021. This latter figure marks the lowest level since February 2020. Covid-19 was the largest source of uncertainty for 21% of respondents, increasing from 12% in November 2021. Nevertheless, the economic environment remains volatile. The Bank of England further downgraded its forecast for the annual growth of UK business investment from 3% to 0.75% for 2021 in the Monetary Policy Report published in November 2021.⁹

⁶ www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/julytoseptember2021

⁷ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/january2022

⁸ www.bankofengland.co.uk/decision-maker-panel/2021/december-2021

⁹ www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2021/august/monetary-policy-report-august-2021.pdf

Output in services and production grew in the third quarter

Output in UK services increased by 1.6% in the quarter to 2021 Q3, almost recovering to the pre-pandemic 2019 Q4 level (0.7% below). Key contributors were accommodation and food service activities (30% growth) and arts, entertainment and recreation activities (19.6%). Both sectors have benefitted from the gradual lifting of Covid-19 restrictions. Production output also recorded positive quarterly growth

in 2021 Q3, although weaker than services (0.8%, remaining below pre-pandemic levels). However, construction experienced a negative growth of output in the quarter to 2021 Q3 (-1.5%), following a quarterly increase of 3.3% in 2021 Q2. The fall in construction sector output in 2021 Q3 reflected delays in the availability of products and an increase in input prices.

GDP in Wales declined in 2021 Q1

The quarterly (experimental) GDP estimates show that all the devolved administrations experienced negative quarterly GDP growth in 2021 Q1. The Welsh economy had the worst performance, with a 1.7% decline (England -0.6%, Northern Ireland -1%, Scotland -1.6%).^{10 11}

¹⁰ www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/januarytomarch2021

¹¹ These figures should be treated with caution due to the potential volatility of the data.

UK unemployment continued falling in 2021 Q3

There is growing evidence of tightening labour markets in the UK and Wales with many industries reporting difficulties in recruitment. Importantly these problems are not confined to higher technology areas but with some parts of the accommodation and food services sector also facing difficulties. Labour market shortages are contributing to inflationary pressures across the UK economy, at a time when energy and general input prices are also seeing sharp increases.

According to the Labour Force Survey¹² signs of recovery of labour markets have become stronger during the latter part of 2021. The UK employment rate increased from 75.3% in 2021 Q2 to 75.5% in 2021 Q3. Moreover, the UK unemployment rate fell from 4.6% to 4.3%.¹³ Redundancy rates¹⁴ had been declining since the latter part of 2020. For 2021 Q3, however, the redundancy rate increased very slightly, reaching 3.7 redundancies per 1,000 employees.¹⁵ According to the monthly update for November 2021, the redundancy rate decreased to a record low to

2.8 per 1,000 employees in the three months to November 2021, following the end of the job retention scheme. In the same period, Wales recorded the fourth highest redundancy rate among UK regions (3.5 per 1,000 employees).¹⁶

The employment rate in Wales stood at 73.8% in 2021 Q3, down slightly from 74.2% in 2021 Q2, and a little below the UK figure of 75.5%.¹⁷ The employment rate in Wales in 2021 Q3 was also below the pre-pandemic 2019 Q4 rate (74.4%). However, the unemployment rate in Wales was 3.8% in 2021 Q3, down from 4.1% in 2021 Q2, and below the UK figure of 4.3%. According to Pay as You Earn Real Time Information, payroll employees in Wales are above pre-pandemic levels (1.28m in November 2021 compared to 1.26m in February 2020), while the UK had 0.4m more payroll employees than pre-pandemic (29.4m in November 2021 compared to 29m in February 2020).¹⁸

¹² www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/latest

¹³ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/november2021

¹⁴ 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

¹⁵ www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/timeseries/beir/lms

¹⁶ www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandemploymentratesred02

¹⁷ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/november2021

¹⁸ www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimetransactionstatisticsreferencetableseasonallyadjusted

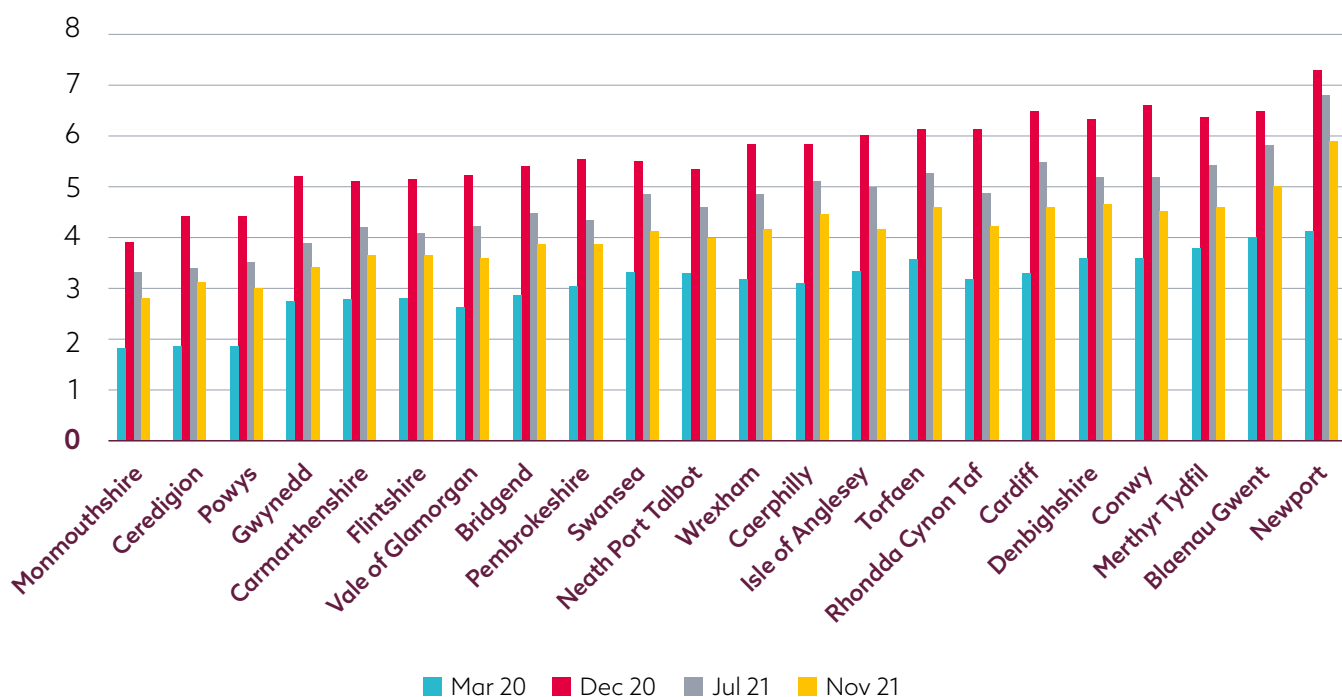
A decrease in the number of unemployment benefit claimants in November 2021

The UK unemployment-related benefit claimant count increased from 2.59m in January to 2.65m in April, but then declined to 2.26m in July and further to 1.92m in November 2021.¹⁹ UK benefit claimants fell by 680,000 in the year to November 2021. In November 2021, 80,255 people in Wales claimed unemployment-related benefits (equal to 4.1% of the working age population), down from 110,400 in April 2021. According to the data for November 2021, the Welsh areas with the

highest proportion of working age population claiming unemployment-related benefits were Newport (5.9%) and Blaenau Gwent (5%), and those with the lowest proportions were Monmouth (2.8%) and Powys (3%) (Figure 1). These figures are valuable as they provide a picture of Welsh labour markets after the end of the furlough scheme, showing a declining trend in the proportions of people claiming unemployment-related benefits compared to July 2021, when the scheme was still operating.

Figure 1.

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



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

¹⁹ www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountyunitaryandlocalauthorityexperimental

Final figures of furloughed jobs

The job retention scheme came to an end in September 2021. As the economy reopened, the number of UK furloughed employments had been falling. Furloughed employments dropped from around 4.3m at the end of April 2021 to 1.9m by the end of June 2021 and further to 1.16m at the end of September 2021, when the scheme closed.²⁰ Almost 11.7m jobs were supported in total through the Coronavirus Job Retention Scheme in 1.3m employers, with the total cumulative value of furlough claims in the UK being equal to £70bn.

Wales had a total of almost 475,000 employments furloughed during the operation of the scheme. 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 (due to England-Wales commuting). The local authorities in Wales with the highest furlough take-up rates during the duration of the job retention scheme included Conwy, Gwynedd, Pembrokeshire and Flintshire, and with the lowest being Newport, Torfaen and Caerphilly.

UK and Welsh economy forecasts

The Bank of England downgraded its forecasts for UK GDP growth in 2021, from 7.25% August to 7% in November 2021. The Bank also forecasts a 4.5% unemployment rate in 2021 (down from 4.75% as projected in August), before falling to 4% in 2022. The OECD forecast for UK GDP is a 6.9% increase for 2021, 4.75% for 2022 and 2.1% for 2023.

In their Autumn UK Economic Outlook, the National Institute of Economic and Social Research (NIESR) upgraded its forecast for GVA in Wales. Wales, alongside the North

East, Yorkshire & Humber and Northern Ireland, were projected not to recover to pre-pandemic levels of GVA by 2024Q4 in the Summer Outlook. However, the most recent projections by NIESR (published in November 2021, and before the surge in Omicron cases) forecast that GVA in Wales will exceed the 2019 Q4 level by 2022 Q4 (0.1% above).²¹ Wales is forecasted to have the strongest employment growth among the devolved administrations.

²⁰ www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-16-december-2021/coronavirus-job-retention-scheme-statistics-16-december-2021

²¹ www.niesr.ac.uk/wp-content/uploads/2021/11/UK-Economic-Outlook-Autumn-2021.pdf

- The Small Business Confidence Index in Wales remained positive, although declining in the quarter to 2021 Q3.
- The Business Impacts and Conditions Survey for the period from 13th to 26th December 2021 showed that the rate of firms surveyed which continued to trade in Wales was the highest across the UK regions.
- One year after the end of the Brexit transition period and implementation of new trade rules between the UK and EU, the total value of UK goods exports and imports increased in the year to September 2021. The values of both goods exports and imports were however below the values for the period to September 2019 in the UK and in Wales.

Small firms' confidence remains positive.

The UK Small Business Confidence Index²² remained positive for the third consecutive quarter in 2021 Q3.²³ However, there remain key concerns on business costs. Moreover, the proportion of small businesses surveyed being concerned about the tax burden and perceiving it as an important barrier to growth, hit a two year high (16%).

The proportion of UK small businesses reporting a rise in operating costs increased for a second consecutive quarter in 2021 Q3, rising from 23% in 2021 Q1 to 52% in 2021 Q2 and further to 69% in 2021 Q3. Among the barriers to growth, the number of UK SMEs

surveyed that cited utility costs as a barrier to growth increased by 8.4 percentage points from 3.6% in 2021 Q2 to 12% in 2021 Q3. This finding reflects the significant hike in energy prices, which are expected to further increase during 2022. In addition, and highlighting the issues emerging in the labour markets, 38% of SMEs surveyed in 2021 Q3 stated that the lack of staff with appropriate skills is holding them back in their efforts for recovery and expansion.

UK Small Business Confidence Index remains positive in all sectors, apart from wholesale and retail in 2021 Q3

The Manufacturing confidence index remained positive, although declining from +20 in 2021 Q2 to +15 in 2021 Q3. Construction followed a similar path, falling from +27 in 2021 Q2 to +23 in 2021 Q3. The confidence index for wholesale and retail trade went into negative territory, dropping from +1 in 2021 Q2 to -11 in 2021 Q3.

²² "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).

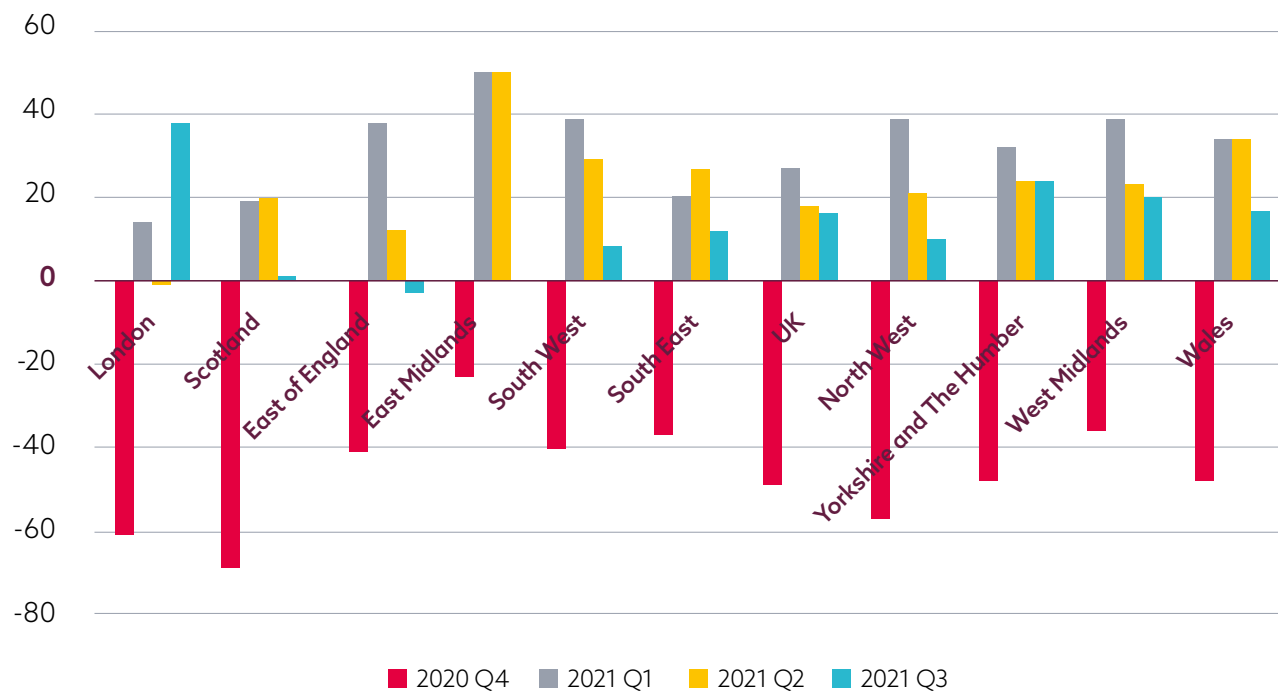
²³ FSB (2021). FSB voice of small business index, Quarter 2 2021. Available at: <https://www.fsb.org.uk/static/9bb253cf-207d-408b-b96967c677396c20/FSB-Small-Business-Index-Q3-2021.pdf>

Welsh SME confidence in 2021 Q2 remains positive but declines

The Federation of Small Businesses reported that SME confidence in Wales remained positive but declined in 2021 Q3. 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, before falling to +17 in 2021 Q3.

Figure 2.
Small Business Index, UK regions, 2020 Q4-2021 Q2



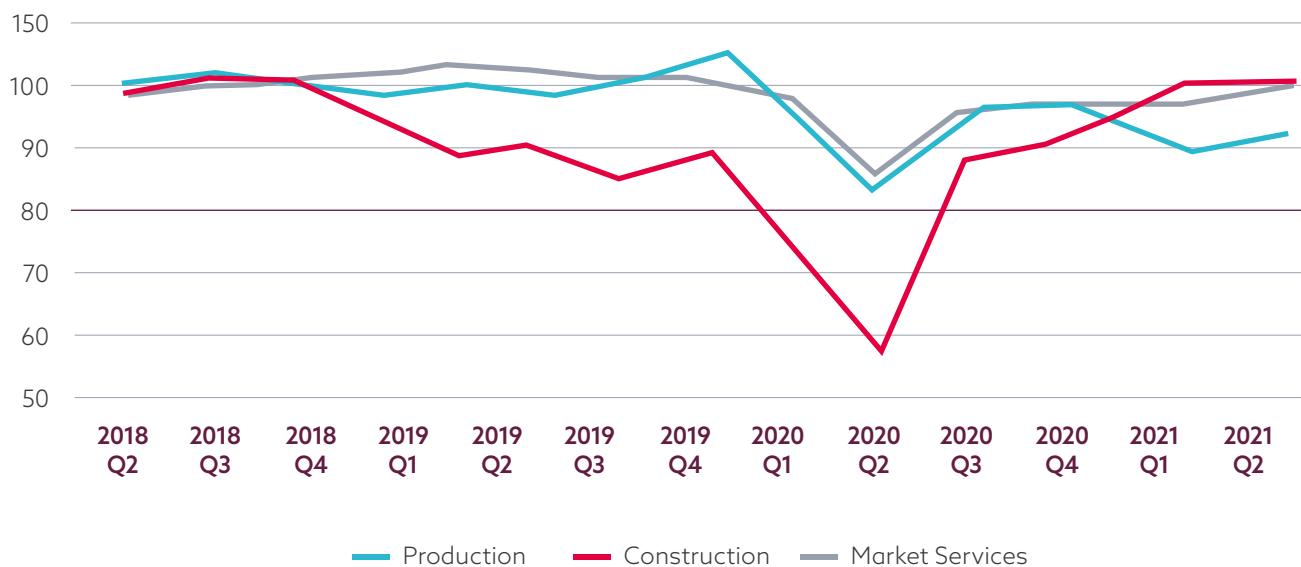
Source: [FSB Voice of Small Business Index 2021 Q3](#)

Positive output growth across Welsh production, market services and construction sectors in 2021

Stats Wales figures reveal that output in all the sectors of economic activity continued to recover in 2021 Q2, after some turbulence in 2021 Q1, particularly for production and market services. Figure 3 illustrates the quarterly movement in Welsh indices of output in production, construction and market services from 2018 Q2 to 2021 Q2. The index of production grew from 89 in 2021

Q1 to 93.2 in 2021 Q2. The index of market services increased from 96.3 in 2021 Q1 to 99.3 in 2021 Q2. Finally, the construction index, which was severely affected by forced halts made in large projects during lockdown in the first half of 2020, continued its strong recovery, with the index reaching a value of 99.6 in 2021 Q2, up from 99.1 in 2021 Q1.

Figure 3.
Welsh output indices: trends 2018 Q2 - 2021 Q2 (2019=100)



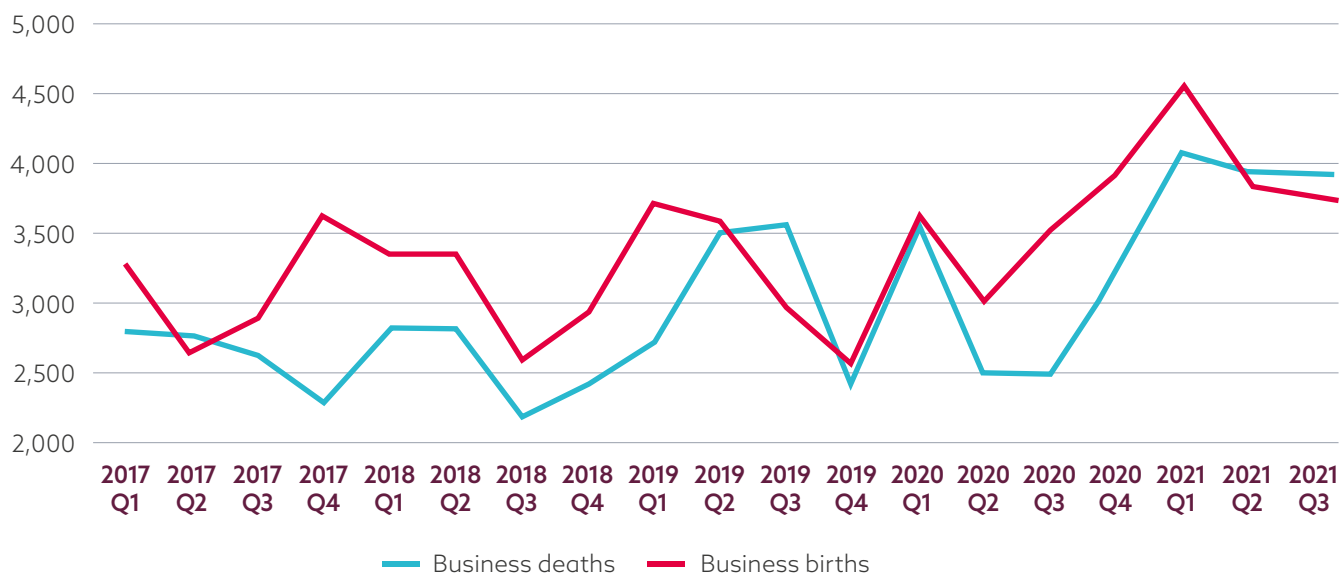
Source: Stats Wales, [Welsh Indices of Production and Construction \(2019=100\) by section and year](#) and [Index of Market Services \(2019=100\) by year and area](#)

Increase in business births and deaths in the year to 2021 Q3

Figures provided by ONS indicate that UK business births increased by 4% to 84,535 in the year to 2021 Q3.²⁴ However, the number of business deaths rose by 50% from 67,040 in 2020 Q3 to 100,835 in 2021 Q3. This was 35% higher than the average of business closures in the third quarter of calendar years from 2017 to 2020. Most regions had similar trends in business birth and death rates, while real estate, business administration and support services, as well as finance and insurance were the industries with the greatest annual increase in business deaths in the UK in 2021 Q3.

Wales has followed a similar trend to the UK, with both business births and deaths increasing in the year to 2021 Q3. Business births rose by 5.4% in the year to 2021 Q3, increasing from 3,525 in 2020 Q3 to 3,715 in 2021 Q3. Business deaths in Wales increased from 2,485 in 2020 Q3 to 3,930 in 2021 Q3, rising by 58% (although with some slight downturn in the rate of business deaths in the most recent two quarters). Figure 4 illustrates the difference between business deaths (3,930) and business births (3,715) in 2021 Q3. Figure 4 also illustrates the quarterly volatility of this data since 2017.

Figure 4.
Quarterly business births and deaths in Wales



Source: [Business demography, quarterly experimental statistics, UK](https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticsuk)

²⁴ www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticsuk

According to the BVA BDRC SME Finance Monitor for the three months to August 2021,²⁵ 15% of UK SMEs surveyed reported growth during the last year (Wales, 16%). Across the business size bands, 25% of micro firms reported growth in the previous year (small firms, 19% and medium firms, 18%). Around 56% of UK SMEs and 59% of Welsh SMEs surveyed in the three months to August 2021 reported that their business had declined last year, lower than the 65% in 2021 Q1. Regarding future trajectories, 48% of UK SMEs surveyed in the three months to August 2021 anticipated growth in the following year, down from 52% in 2021 Q2, but higher than the 41% in 2021 Q1. In Wales, 43% of SMEs surveyed expect growth next year. The current economic climate was the most important concern among UK SMEs surveyed in the three months to August

2021 (23%), followed by political uncertainty (18%) and cash flow/late payments (14%).

The Business Impacts and Conditions Survey (BICS)²⁶ for the period from 13th to 26th December 2021 indicated that 99.7% of firms surveyed in Wales continued to trade, the highest rate among the UK regions. Highlighting the effects of the Omicron surge, around 12% of firms surveyed in Wales stated that cancellations from customers increased over the previous month. Almost 4 out of 10 businesses surveyed in Wales indicated a shortage of workers, the 6th highest in the UK. Around 2.5% of firms in Wales expected to permanently close any business sites or make any of the workforce redundant over the next three months. Around one quarter of Welsh firms surveyed had been affected by problems in production or supply acquisition.

²⁵ www.bva-bdrc.com/wp-content/uploads/2021/10/SME-Monthly-charts-Aug-FINAL.pdf

²⁶ www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheeconomy

EU transition continues

It has now been more than one year since the end of the transition period and implementation of the new trade rules between the UK and EU.

In the year to September 2021, the total value of UK goods trade increased²⁷. However, the UK trade in goods deficit is being maintained. The value of UK goods exports increased by 3.4% during the year to £305.1bn. The value of goods imports increased by 8.2% to £453.4bn. Whilst there had been an increase in the value of total goods trade during the year to September 2021, the values of both goods exports and imports were below the values for the year to September 2019. In the year to September 2021, the value of goods exports was almost 11% below the values for the year to September 2019, while goods imports were 8.4% below.

The value of goods exports from Wales increased by 12% between 2021 Q2 and 2021 Q3, driven by a 4% increase in the value of exports to EU countries, and a 27% increase in the value of exports to non-EU countries.

In both cases the quarterly increases in value are largely linked to exports of 'mineral fuels'. However, over the year to September 2021, the total value of goods exports from Wales fell by 0.5% to £14.3bn, with goods imports increasing by 1.7% to £15.3bn. In Wales, the value of goods trade in the year to September 2021 was well below the value in the year to September 2019; goods exports were almost 20% below, and goods imports were just over 17% below the values for the year to September 2019.²⁸

Other initial post-Brexit trading trends for SMEs have emerged. The BICS survey for the period between 13th and 26th December showed that around 6.5% of Welsh firms surveyed had made changes to supply chains since the end of the EU transition period. Almost 46% of these firms decided to use more UK suppliers, the highest across the UK. However, Wales had the second lowest rate of firms surveyed that faced extra costs due to increased red tape after the end of the EU transition period.

²⁷ www.uktradeinfo.com/trade-data/regional/2021/uk-regional-trade-in-goods-statistics-third-quarter-2021/

²⁸ www.uktradeinfo.com/trade-data/regional/2021/uk-regional-trade-in-goods-statistics-third-quarter-2021/

- The use of external finance for UK SMEs increased in the three months to August 2021. The appetite for future finance increased, with four out of ten UK SMEs being happy to use external finance to help the business grow.
- Firms receiving equity investments and the amount of investment in Wales increased in the year to 2020. Equity investments were made in Welsh firms during the challenging period of the pandemic, particularly in ICT, business products and services, as well as biotech and healthcare sectors.
- There was a significant drop in the annual growth rate of loans to SMEs in the UK in the seven months to November 2021, as many government schemes for business support came to an end. Demand for the UK Government's Recovery Loan Scheme remains low.
- The Bank of England increased interest rates in December 2021 and February 2022. Further increases are expected in response to inflationary pressures within the economy, with implications for the average interest rates on UK SME loans.

The supply of Welsh SME finance and funding changed rapidly as a result of targeted interventions to assist firms impacted by Covid-19.

Such interventions have gradually been coming to an end.

SME demand for new bank credit subdued in 2021 Q3

The Bank of England Agents' summary of business conditions²⁹ indicates that SME demand for new bank credit was subdued in 2021 Q3. However, rising costs of raw materials and supply-chain issues have resulted in a growth in demand for working capital finance. Moreover, demand was high for other forms of finance, including asset-based finance, particularly from companies in construction and agriculture. Finally, demand for the UK Government's Recovery Loan Scheme (RLS) launched in April 2021 has remained low, possibly driven by its tighter conditions, and the wider improvement of business confidence.

According to BICS from 27th December 2021 to 9th January 2022, debt repayments were between 50% and 100% of turnover over the previous month for around 3% of Welsh

respondents, while for 25% of respondents they were below 20% of turnover. One out of 4 Welsh firms surveyed had no debt obligations, the lowest among the UK regions. Just 1% of respondents had low confidence the firm would meet its debt obligations (again the lowest in the UK), with 46% being highly confident. Nevertheless, the risk of default remains relatively high. Around 11% 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 the three months to August 2021, the use of external finance for UK SMEs increased. Specifically, responding UK SMEs that use external finance rose from 42% in 2021 Q1 to 47% in the three months to August

²⁹ www.bankofengland.co.uk/agents-summary/2021/2021-q3

2021. Small firms were found to use external finance much more than micro and medium-sized businesses (62% compared with 56% and 40% respectively). SME surveyed in Wales that use any external finance increased from 41% in 2020 Q3 to 57% for 2021 Q2. For the 4 quarters to the end of Q2 2021, 47% of micro businesses had used external finance compared to 65% for small and medium sized firms. The SME Finance Monitor indicates a rise in the use of overdrafts and bank loans among SMEs surveyed in the three months to August 2021, with permanent non-borrowers falling from 38% in 2021 Q2 to 35% in the three months to August 2021. In Wales, 34% of SMEs surveyed were permanent non-borrowers in the 4 quarters to the end of Q2 2021. This rose to 47% in 2021 Q1 and went back down to 37% in 2021 Q2.

The BVA BDRC SME Finance Monitor 2021 Q2 indicated that the appetite for future finance has increased for UK SMEs. Around 38% of responding UK SMEs for the three months to August 2021, stated that they are happy to use external finance to help the business grow, up from 36% in 2021 Q2. Around 12% of Welsh SMEs surveyed had plans to borrow or renew in the 4 quarters to the end of Q2 2021. However, 43% are happy to take on finance to help the business

grow. The need for external finance increased from 3% in 2019 to 9% in 2020 and further to 15% in the first half of 2021, before falling to 12% among the UK SMEs surveyed in the three months to August 2021. Across UK SMEs, 41% reported an injection of personal funds in the three months to August 2021, which is the highest ever recorded in the survey. Among these, 30% felt that they had to inject personal funds, while 11% chose to inject personal funds. Almost 37% of SMEs surveyed in Wales injected personal funds in the 2021 Q2, down from 41% in 2021 Q1, while 29% felt they had to inject personal funds into the business compared to 12% who did it to help the business grow.

According to the British Business Bank UK Regions and Nations Tracker³⁰ around 45% of UK SMEs were using external finance in 2021 Q2, up from 32% in 2020 Q1. Around 38% of SMEs surveyed in Wales were willing to use finance to grow, with 10% perceiving access to finance as a major obstacle. Around 98,300 SME loans and overdrafts were approved in Wales by the British Business Bank in 2020 (6.3% of the total in the UK).

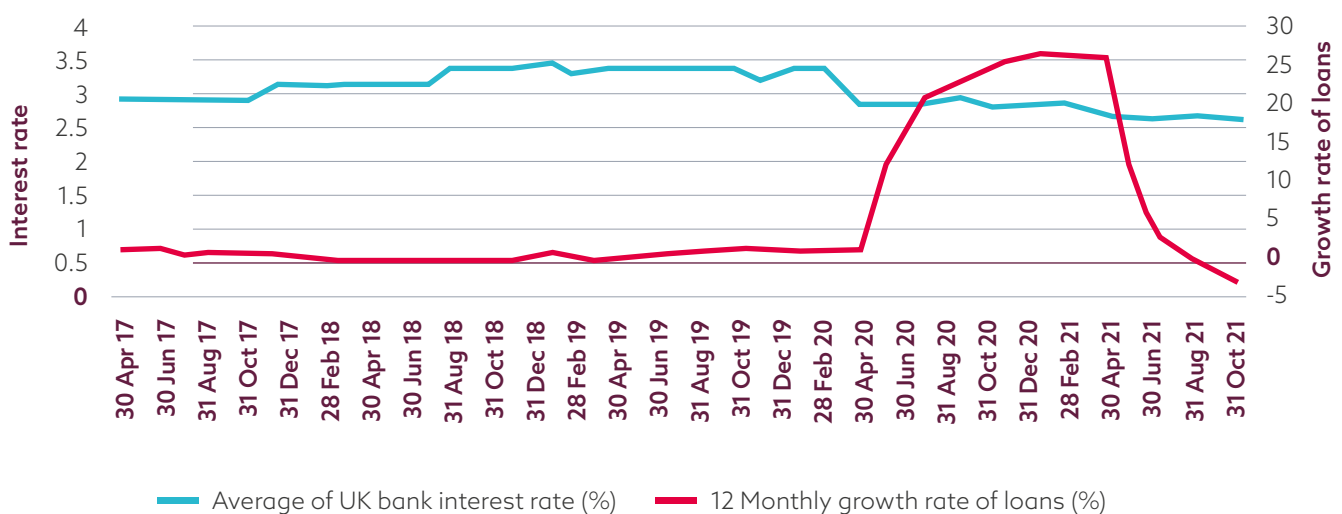
³⁰ www.british-business-bank.co.uk/wp-content/uploads/2021/10/J0018_Regional_Tracker_Report_AW.pdf

Interest rates on UK SME loans remained stable, and the annual growth rate of loans was negative

Figure 5 illustrates that the average interest rate on UK SME loans remained stable during 2021 Q3. The average interest rate was 2.65% in November 2021. Consumer price inflation hit 5.4% in the 12 months to December 2021, the highest 12-monthly inflation rate in almost 30 years. The Bank of England is expected to take further action, after increasing the interest rate from 0.1% to 0.25% at the end of 2021, and further to 0.50% in February 2022, with implications for the interest rates on UK SME loans.

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, with many schemes coming to an end. This is reflected in Figure 5 that shows a significant drop in the annual growth rate of loans to SMEs. As the availability of some Government backed schemes has ended, the focus is now on the RLS, which opened to applications on 6th April 2021 and has been extended to 30th June 2022. However, as already noted, demand for RLS loans has not yet been strong.

Figure 5.
Interest rate on UK SME loans, and growth rates of loans



Source: [Bank of England](#)

UK Finance figures show that gross lending to UK SMEs continued to record quarterly declines after the peak of 2020 Q2. Lending fell from £34.5bn in 2020 Q2 to £13.9bn in 2020 Q3, £9.6bn

in 2020 Q4, £7.6bn in 2021 Q1 and £5.2bn in 2021 Q2. In Wales, gross lending to SMEs fell from around £400m in 2020 Q3 to £200m in 2021 Q3.

Equity investment increases in Wales in the year to 2020

According to the BVCA Investment Activity Study 2020, the total value of UK private equity and venture capital was £9.5bn in 2020, down from £10.2bn in 2019. Around 90% of the firms that received these investments were SMEs. Around 4% of UK firms that received investments in 2020 were located in Wales, down from 5% in 2019 and 7% in 2018. The amount invested in firms in Wales was 1% of the total investment in 2020. Most companies receiving investment in Wales were in ICT (48% of the companies receiving investment in Wales) and biotech and healthcare (19%). In terms of amounts invested, biotech and healthcare firms attracted investments with a total value of £74m and companies in business products and services saw investments of £35m.

According to the British Business Bank UK Regions and Nations Tracker around 50% of investor-investee pairings in Wales from 2011 to 2020 involved an investor with an office more than two hours travelling distance away from the recipient business. This highlights the relative lack of equity supply in Wales. For example, 90% of investor-investee pairings in London involved

an investor with an office within an hour of the recipient business. This reveals the uneven geography of UK equity investors. Around 30 equity investors were located in Wales from 2011 to 2021 Q1, equal to 2.1% of the UK total. Most equity deals in Wales were in firms located in South Wales. Businesses located in Cardiff, Swansea and Newport typically made up over half of Welsh deals in the decade to 2021.

Firms receiving equity in Cardiff, Swansea, Newport and Bridgend represent 37%, 10%, 7% and 5% of the pairings respectively. Investors are also concentrated in Cardiff (33% of pairings involving Welsh businesses). The finding that the second largest is Wrexham with 15% of investors, despite businesses in the area only featuring in 2% of pairings, could be explained by the fact that for the purposes of this study, the Development Bank of Wales is considered to be based in Wrexham where it has its headquarters. However, the Development Bank has several offices across Wales, with the largest being in Cardiff.

³¹ www.ukfinance.org.uk/sites/default/files/uploads/Business-Finance-Review-2021-Q3-FINAL.pdf

³² www.bvca.co.uk/Portals/0/Documents/Research/2021%20Reports/BVCA%20Investing%20with%20Integrity%20-%20September%202021.pdf

³³ www.british-business-bank.co.uk/wp-content/uploads/2021/10/J0018_Regional_Tracker_Report_AW.pdf

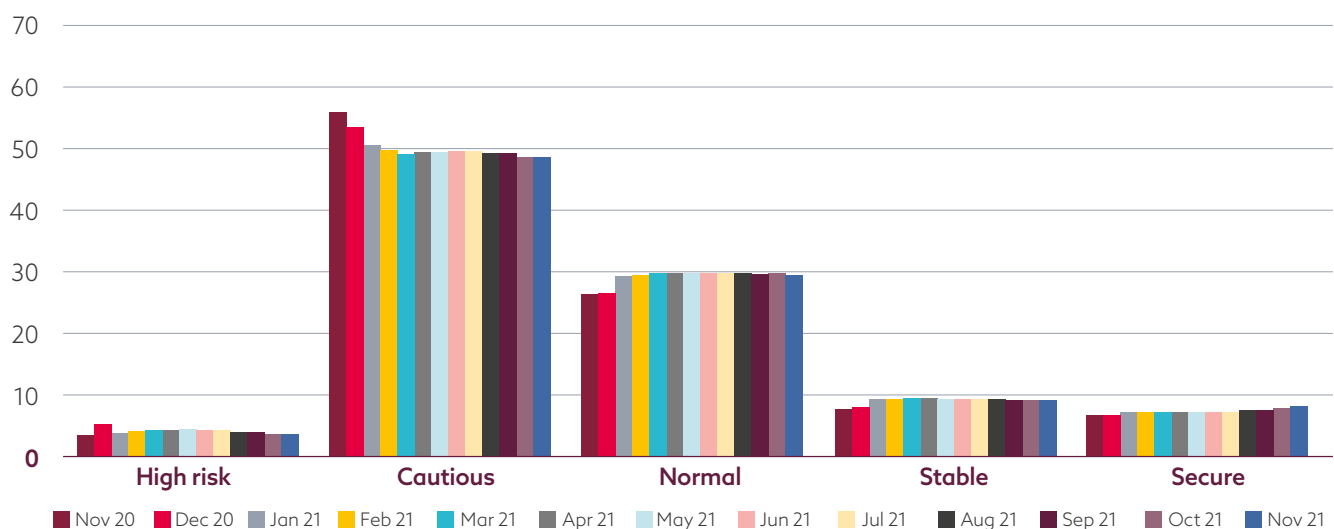
A continuing improvement in Welsh SME credit risk ratings

Welsh SME credit risk ratings improved amid the full reopening of the economy and lifting almost all restrictions. 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 and further to 4.1% in November 2021. This finding might be seen as surprising but one contributory factor here has been that the combination of furlough payments, and various grant/loan assistance provided by Welsh Government, Development Bank of Wales and UK Government have worked to improve the working capital position of struggling businesses.

The proportion of SMEs in the Stable and Secure categories has increased between August and November 2021. It should be noted that, before the reopening of the economy, UK and Welsh Government policies supporting firms and jobs had contributed to an extended improvement in the credit risk picture in Wales from March 2020 to September 2021. The number of Welsh SMEs in the FAME database (from which the credit rating data is drawn) has increased from 40,000 in November 2020 to 55,000 in November 2021, with similar increases being recorded in all the UK devolved administrations.

Figure 6.

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



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

Similar to recent Quarterly reports, hospitality as well as transport and telecommunications had the highest share of SMEs in the High Risk and Caution groups. SMEs in manufacturing,

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

- Investment (£30.5m) and employment supported (694 jobs) by the Development Bank of Wales rose in 2021/22 Q2 compared to the previous quarter, with both loan and equity investment recording an increase.
- South east Wales attracted the majority of new investment for another quarter (£14.3m).
- The Construction sector had the largest share of new investment in 2021/22 Q2 (£15.6m).

This section summarises Development Bank of Wales investments in 2021/22 Q2. The data in this section has been derived from the Development Bank’s database.

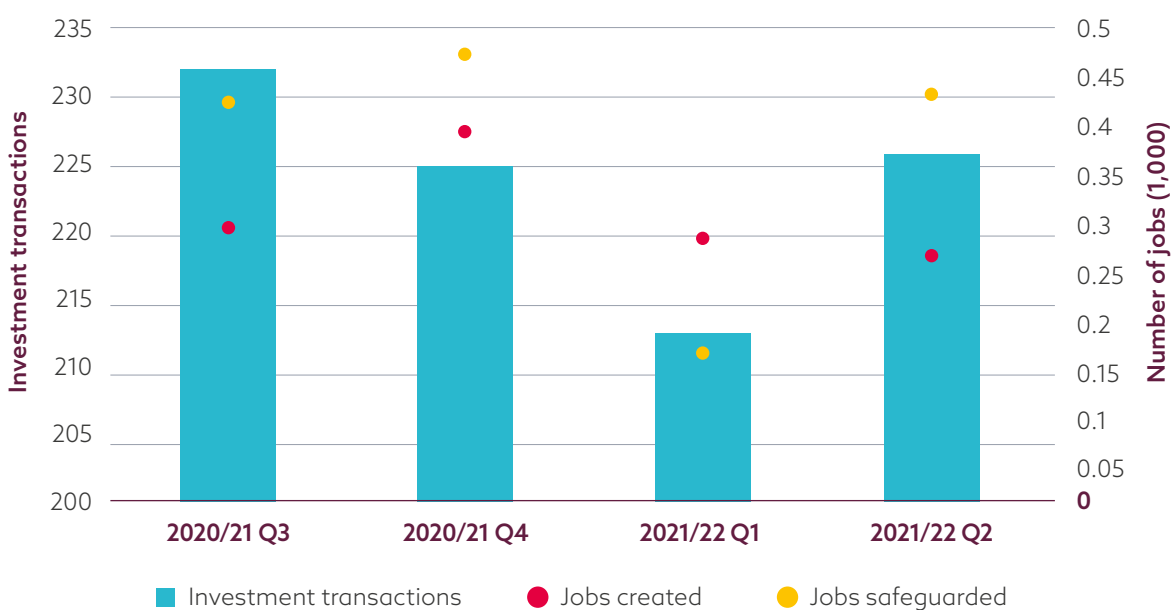
An increase in investment and employment supported in 2021/22 Q1

The Development Bank made 226 investment transactions in 2021/22 Q2, linked to 136 deals, with a value of £30.5m. The average investment amount per transaction in 2021/22 Q2 was £135,000. The investment transactions

in 2021/22 Q2 created and safeguarded 694 employment positions, much higher than in 2021/22 Q1 (443), but lower than in 2020/21 Q4 (858) and 2020/21 Q3 (716).

Figure 7.

Investment transactions and jobs created and safeguarded, 2020/21 Q3 – 2021/22 Q2



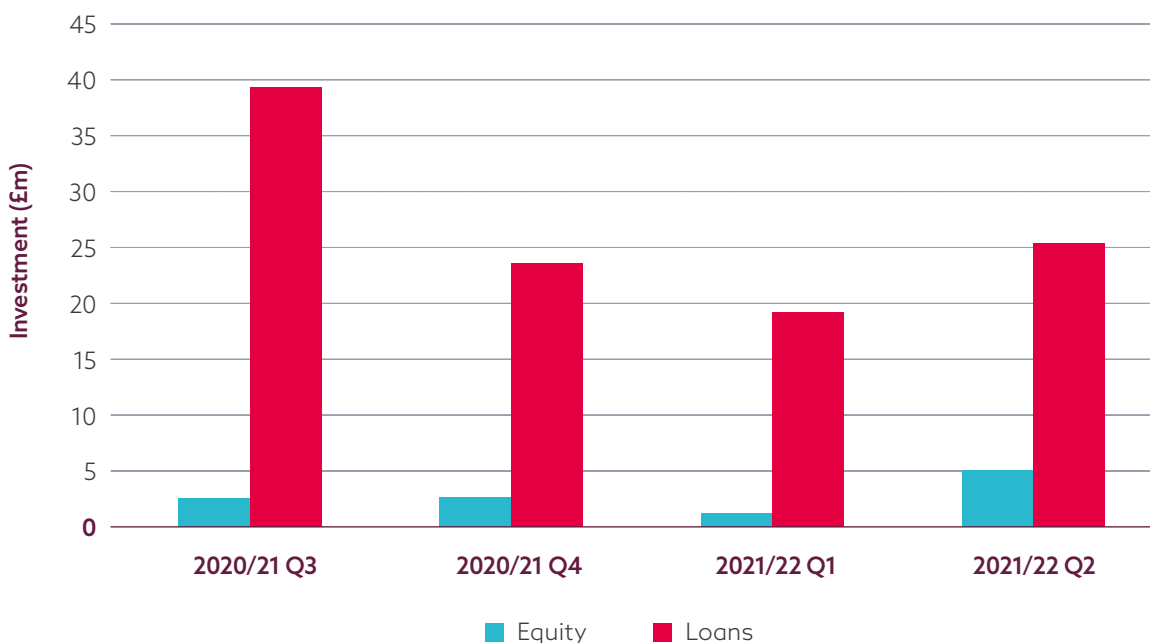
Quarterly rise in loan investment and equity investment in 2021/22 Q2

New loan investment was £25.4m in 2021/22 Q2, up from £19.2m in 2021/22 Q1. Equity investment was £5m in 2021/22 Q2, up from £1.4m in 2021/22 Q1.

investment was £5m in 2021/22 Q2, up from £1.4m in 2021/22 Q1, and £2.8m in 2020/21 Q4.

Figure 8.

New Investment by Investment Type (£m), 2020/21 Q3 - 2021/22 Q2

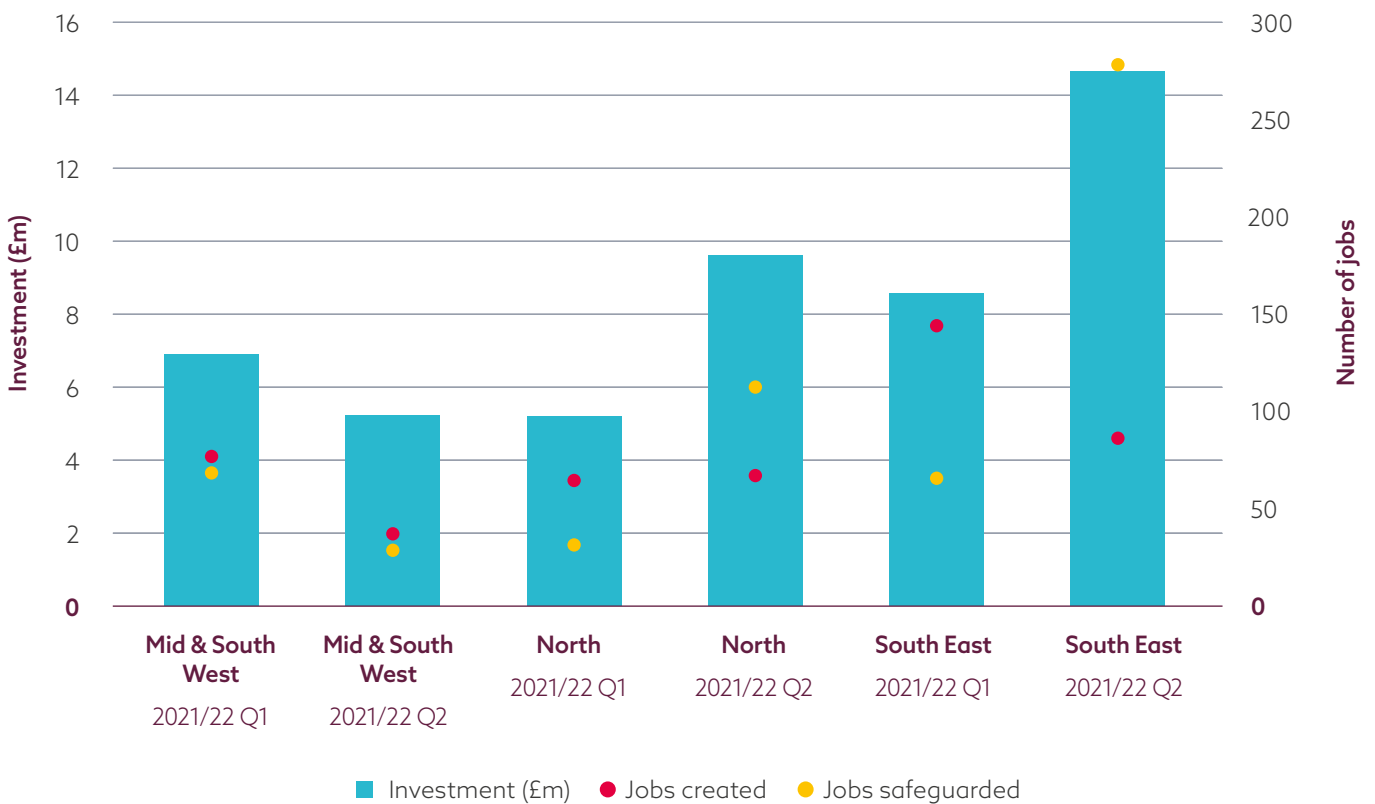


South east and north Wales saw increases in new investment in 2021/22 Q2

The majority of investments in 2021/22 Q2 were made to firms located in south east Wales. New investment in south East Wales, the region with the greatest concentration of firms in Wales, amounted to £14.6m, up from £8.6m in the previous quarter, creating 131 and safeguarding 276 jobs. New investment in north

Wales also increased from £5.1m in 2021/22 Q1 to £9.7m in 2021/22 Q2, while new investment fell in mid and south west Wales from £7m to £6.1m. The north Wales region had a quarterly increase in the jobs created and safeguarded, whereas mid and south west Wales recorded a decline in jobs created and safeguarded.

Figure 9.
Investment by Location (£m), 2021/22 Q2



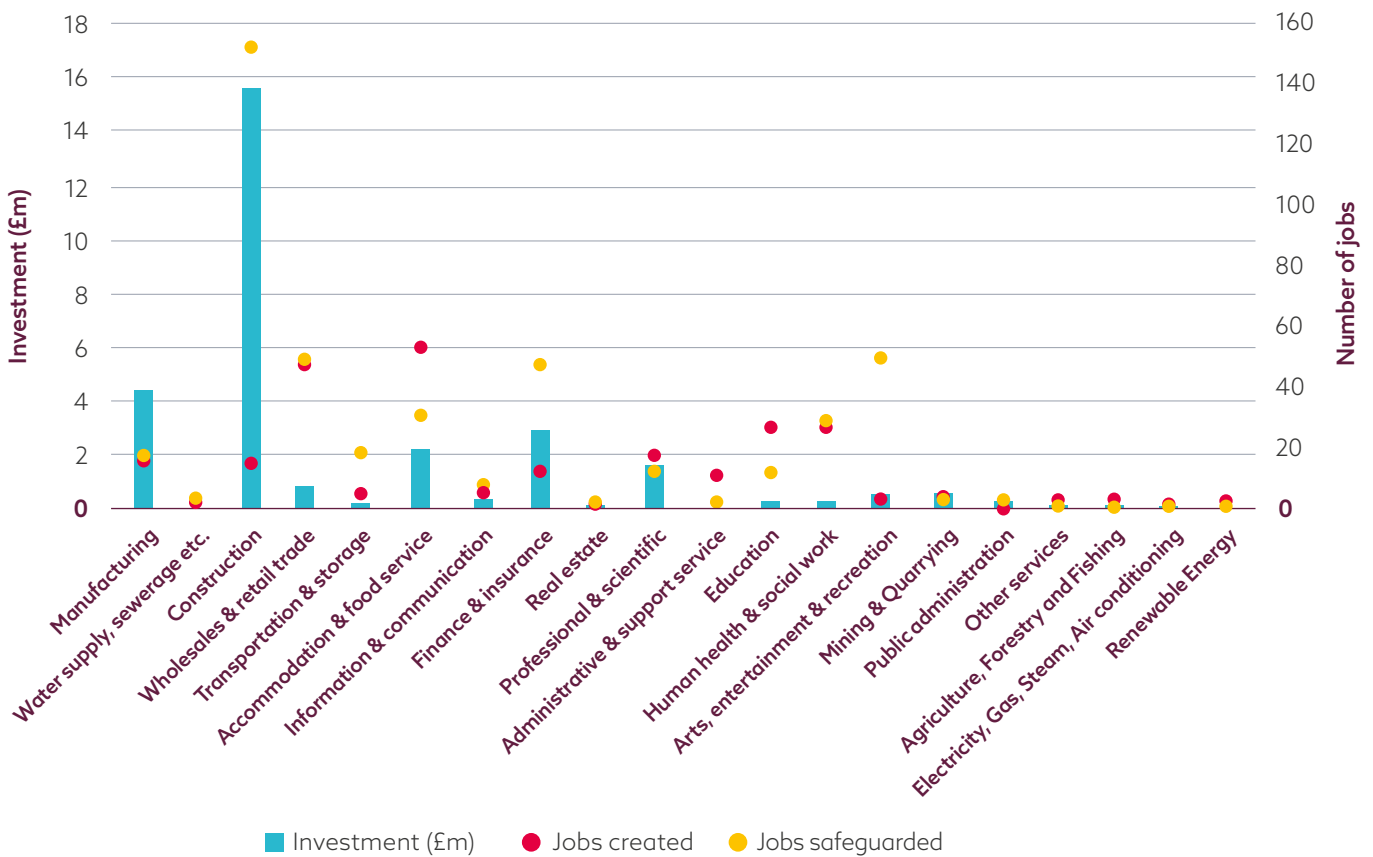
Construction had the largest share of new investment for another quarter, also seeing a quarterly rise

In 2021/22 Q2, construction received the largest share of new investment (£15.6m up from £11m in 2021/22 Q1), creating or safeguarding 165 jobs. Other sectors that attracted high amounts of investments included manufacturing (£4.5m up from £1.2m) and finance and insurance sector businesses (£2.8m up from £465,000).

Hospitality businesses in the accommodation and food service sector created the most jobs during the quarter at 53, followed by those in the wholesale and retail trade sector with 46. These sectors both saw the highest number of start-ups supported in the sector with 6 and 7 businesses respectively. From 2020/21 Q3 to 2021/22 Q2 these sectors have seen 30 and 27 start-ups supported by Development Bank of Wales investments respectively.

Figure 10.

Investment and jobs created and safeguarded by sector (£ million), 2021/22 Q2



The third quarter of the 2021 saw an almost complete easing of the social restrictions relating to Covid-19 and progress towards the complete reopening of the economy. UK GDP, labour market, and business investment indices have improved. The monthly GDP estimates for November 2021 indicate that the UK GDP exceeded the pre-pandemic levels, and the economic forecasts for Wales improved, such that GVA in Wales is now projected to surpass the pre-pandemic level by the end of 2022. This data provided some optimism before the surge of Omicron cases.

In the wake of the Omicron cases surge, the Welsh Government reintroduced some restrictions, also initiating a £60m support scheme for businesses affected. Whilst the recent lifting of restrictions is positive news for business, with increasing inflation, interest rates and cost of living, and ongoing supply chain issues, business uncertainty is likely to increase in the short-term. In addition, although the number of business deaths have fallen slightly in recent quarters, the numbers are still relatively high, and are now above the number of business births, which is a particular cause for concern.

The Development Bank of Wales played a significant role in the efforts of the Welsh economy to recover for another quarter. Indeed, this Quarterly report has revealed that the value of some 228 investments made in 2021/22 Q2 was around £30m. These investments created an estimated 265 jobs and safeguarded around 440, mainly in accommodation, construction, manufacturing, as well as wholesale and retail, activities that have been strongly affected by the pandemic and the mitigation measures.

Looking forward to the remainder of 2022 there would seem to be some room for optimism in terms of Welsh economy prospects. At the time of writing this report, restrictions resulting from the surge in Omicron cases have been lifted. Moreover, there have been some encouraging signs that inward investment into the Welsh economy might be increasing with, for example, signal investments occurring in firms such as KLA and Nexperia in the Newport semiconductor sector. Of emerging concern are skills shortages in the Welsh economy in both the private, and some parts of the public, sector. This together with surging energy prices has seriously increased inflationary pressure, and with increasing security concerns in Eastern Europe causing even more uncertainty in energy markets.

Finally, optimism in 2022 assumes that the worst of the Coronavirus pandemic is behind us, but with health experts signalling that new variants are a strong possibility, and with national governments now not having the fiscal levers that were available in 2020 to combat any resulting reductions in economic 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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