

# Economic Intelligence Wales

## *Quarterly report*

**November 2022**

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

- **This quarterly report was finalised on 7 October 2022, before the resignation of Liz Truss as Prime Minister on 20 October 2022.**
- Global economic growth prospects faltered in 2022 Q2. Estimates of global growth for 2022 and 2023 have again been downgraded by forecasting groups.
- Revised UK GDP growth estimates show that the economy grew by 0.2% in the quarter to 2022 Q2, and that the Covid-19 related downturn in the economy in 2020 was more severe than had been previously estimated.
- The FSB Small Business Confidence Index in Wales decreased sharply in 2022 Q2.
- UK economic uncertainty remains high due to the related pressures of inflation, future interest rate rises, the cost-of-living crisis, energy prices and potential energy shortages.
- The SME Finance Monitor reveals some reduction in SMEs using external finance in the period to July 2022.
- In 2022/23 Q1 the Development Bank of Wales made 122 investment transactions with a value of £23.8m. These investments created or safeguarded just over 860 jobs.

**This is the first Economic Intelligence Wales Quarterly report for 2022/23.** The report provides a review of economic data relevant to SME development in Wales and a summary of the investment activities of the Development Bank of Wales during the first quarter of the financial year 2022/23.

The global economic outlook in 2022 has continued to weaken due to high inflation, monetary tightening, and impacts from both the war in Ukraine, and pandemic. **The IMF World Economic Outlook for July 2022 forecasted 3.2% global GDP growth in 2022 and 2.9% in 2023.**

In the UK and the rest of Europe inflationary pressures have largely arisen from a near doubling of wholesale gas prices from May to August 2022. **OECD forecasts an 8.8% annual increase in consumer price inflation in the UK in 2022.**

As part of the Energy Bill Relief Scheme for Businesses, the UK Government announced in September 2022 that wholesale energy

prices are to be capped from October for an initial period of 6 months. This together with the Energy Price Guarantee for households, and the increase in interest rates to 2.25% in September is aimed at reducing inflationary pressure in the final quarter of 2022.

**In the second quarter of 2022, UK GDP is now estimated to have grown by 0.2% (revised from a contraction of 0.1%).** This revision is partly linked to a downward adjustment to the estimated Covid-19-related contraction of the UK economy in 2020. The UK economy is estimated to have contracted by 11% in 2020 (compared to the previous estimate of -9.3%)

Lower levels of business confidence are beginning to affect UK labour markets. In the period June to August 2022 the number of UK job vacancies was 1,266,000, decreasing 34,000 from the record high witnessed in the previous quarter. However, payroll employment increased by 71,000 employees (0.2%) in the month to August 2022.

# Executive summary

**In Wales the number of payroll employees grew by nearly 3,000 between June and August 2022 to just under 1.3m, a lower growth rate compared with the last period (April to June 2022).**

The UK unemployment rate for the three-months to July 2022 was an estimated 3.6%, 0.2 percentage points lower than the previous three-month period, and 0.3 points below the pre-Covid-19 level.

**The small business confidence index dropped sharply in 2022 Q2.** The wholesale and retail confidence index saw the largest quarterly decrease plunging by 57.0 points to -65.2. **The fall in retail and wholesale confidence is of particular concern signalling that consumer spending patterns are changing in expectation of higher amounts of household income being directed towards higher energy costs.**

**The Federation of Small Businesses reported that SME confidence decreased across all UK regions in 2022 Q2. The index for Wales decreased from 14 to -24.**

According to the ONS, UK business births fell in the year to 2022 Q2, decreasing 31.4% to 93,500. The number of business closures also decreased from 137,210 in 2022 Q1 to 113,700 in 2022 Q2.

**The BVA BDRC SME Finance Monitor reporting rolling data for the 3 months to end July 2022 estimated 28% of all SMEs reported growth in the past 12 months and that 43% of SMEs had plans to grow.** However, over one third of SMEs questioned in the three months to July 2022 had seen business decline in the previous year.

The second quarter of 2022 saw little change in the overall availability of business credit according to the Bank of England Credit Conditions 2022 Q2 Survey. **The Survey also revealed that the expected default rate on**

**loans to small businesses had increased from +9.3 in the 3 months prior to the Survey to +24.7 for the three months following the Survey.**

Analysis of Welsh SME financial accounts on the FAME database in September 2022 revealed that close to 51% of these SMEs had a Caution credit category and with 4.7% being rated as High risk.

The SME Finance Monitor findings for the 3-month period to the end of July 2022 revealed that 37% of SMEs were using external finance, lower than the 45% in 2021 Q2. The proportion of survey respondents who were permanent non-borrowers increased to 47% in the 3 months to July. In 2021 Q2 the comparable figure was 45%.

**In the opening quarter of 2022/23, the Development Bank of Wales made a total of 122 investment transactions, connected with 211 new jobs, and 650 safeguarded jobs.** There was a decline in the number of investment transactions in the first quarter of the 2022/23 financial year, compared with the final quarter of 2021/22.

The total value of Development Bank investments in the first quarter of 2022/23 was below the levels of the previous three quarters, but above the value in 2021/22 Q1. **The value of new loan investment was £21.8m and with equity investments of £2m in 2022/23 Q1.**

**The construction industry accounted for over half of investments made in 2022/23 Q1 by value.** A proportion of these investments are from property-related funds (where jobs are not a key performance indicator), hence the relatively low numbers of new and safeguarded jobs in comparison to the value of investment. **In the manufacturing sector, the less than £1m of Development Bank investment safeguarded 193 jobs, the most jobs safeguarded of any sector in 2022/23 Q1.**

This is the first Economic Intelligence Wales Quarterly report for 2022/23. The report provides a review of economic data relevant to SME development in Wales and a summary of the investment activities of the Development Bank of Wales during the first quarter of their financial year 2022/23. The report includes commentary on the global and local economic context and conditions affecting the supply and demand for finance in Wales.

This report is published at a time of economic, political and constitutional changes. In the UK the death of Her Majesty the Queen Elizabeth II signalled the end of an era, while September also saw a change in Prime Minister and a change in most of the UK Government Cabinet. In the UK economy there are pressures caused by energy price increases, and with the war in the Ukraine continuing to impact supply chains, resource availability and costs. For Welsh SMEs, cost pressures and labour shortages prevail in many parts of the economy, while UK households face a winter expected to be impacted by the cost-of-energy crisis. Continuing a theme present in much Economic Intelligence Wales reporting in the past year, there is unfortunately very limited business optimism, and with political uncertainty in the UK unlikely to be improving optimism.

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.

The final section provides some overall conclusions to the report.

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 forecasts and impacts of the crisis in Ukraine, as well as developments in the UK political economy, are changing quickly. Establishing a timely economic picture of these impacts across the Welsh SME landscape is therefore challenging.

- Global economic growth prospects faltered in 2022 Q2. Estimates of global growth for 2022 and 2023 have again been downgraded by forecasting groups.
- Revised UK GDP growth estimates show that the economy grew by 0.2% in the quarter to 2022 Q2, and that the Covid-19 related downturn in the economy in 2020 was more severe than had been previously estimated.
- A further tightening in labour market conditions has continued across the UK. Vacancies remain at high levels despite falling in the three months to August 2022. Wales had one of the lowest unemployment rates in the UK in the three months to July 2022 (3.2%, compared to 3.6% for the UK).
- UK economic uncertainty remains high due to the related pressures of inflation, future interest rate rises, the cost-of-living crisis, energy prices and potential energy shortages.

## Global economic prospects have weakened during 2022

The UN World Economic Situation and Prospects report published in September noted that the global economic outlook in 2022 has continued to weaken due to high inflation, monetary tightening, and impacts from both the war in Ukraine, and pandemic<sup>1</sup>. Rapidly rising food and energy prices are having detrimental effects on real incomes, with the World Bank warning that the former have triggered a global crisis<sup>2</sup>.

In the IMF World Economic Outlook published in July 2022, the forecast for world Gross Domestic Product (GDP) was for growth to slow from 6.1% in 2021 to 3.2% in 2022, a 0.4 percentage point lower than that forecast in the April 2022 World Economic Outlook. The IMF forecast for global GDP growth in 2023 was 2.9%<sup>3</sup>, this being close to the OECD prediction of 2.8%<sup>4</sup>. Particularly important to the global forecasts

then were contractions in output resulting from downturns in China and Russia, and with US consumer spending below expectations. In Europe, downgrades in economic forecasts reflect tighter monetary policy and spillover impacts from the war in Ukraine, which are likely to be exacerbated by the recent halting of European gas imports from Russia.

A key issue in many economies in the second half of 2022 is rising inflation due to factors such as increasing raw materials' costs. In the UK, and the rest of Europe, inflationary pressures have largely arisen from a near doubling of wholesale gas prices between May to August 2022 due to restricted supplies of gas from Russia to Europe<sup>5</sup>. The OECD forecasts a 7.0% annual increase in consumer price inflation in the USA, 8.8% in the UK, and

<sup>1</sup> <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-september-2022-briefing-no-164/>

<sup>2</sup> <https://www.worldbank.org/en/topic/agriculture/brief/food-security-update>

<sup>3</sup> <https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022>

<sup>4</sup> [https://stats.oecd.org/viewhtml.aspx?datasetcode=EO111\\_INTERNET&lang=en](https://stats.oecd.org/viewhtml.aspx?datasetcode=EO111_INTERNET&lang=en)

<sup>5</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/august-2022>

7.0% in the Euro area in 2022<sup>6</sup>. In September 2022, the Bank of England expected that the UK Consumer Prices Index (CPI) measure of inflation would rise to just under 11% in October 2022. This is a lower figure than previously predicted by the Bank due to the Energy Price

Guarantees for consumers and businesses that was announced by the UK Government in September 2022<sup>7</sup> (see later). CPI inflation is forecasted to remain above 10% for the following few months, before starting to recede<sup>8</sup>.

## Revised UK GDP growth estimates show that the economy grew in the quarter to 2022 Q2

UK GDP is now estimated to have grown by 0.2% in the second quarter of 2022<sup>9</sup>. This figure has been revised up from the previous estimate of a contraction of 0.1%. This revision is partly linked to downward adjustment in the estimated GDP contraction in 2020 to 11%, compared to the previous estimate of a decline of 9.3% in 2020. These revisions now show that the level of UK GDP in 2022 Q2 was 0.2%

below the pre-Covid level (2019 Q4), compared to the previous estimate that the level of UK GDP was 0.6% above pre-Covid levels. Monthly estimates show that GDP increased by 0.2% in July 2022<sup>10</sup>, following a 0.6% fall in June (the latter being partly explained by the Platinum Jubilee, with the move of the May bank holiday that led to an additional working day in May 2022, and two fewer working days in June 2022).

## UK business investment grew in 2022 Q2

Following a fall of 0.6% in 2022 Q1, UK business investment increased by 3.7% in 2022 Q2<sup>11</sup>. In the second quarter of 2022, growth was propelled by other buildings and structures. In 2022 Q2, the level of UK business investment was still 8.0% below the pre-Covid level in 2019 Q4. According to the Bank of England's Monetary Policy Report for August 2022<sup>12</sup> the

current weakness of business investment in the UK relative to its pre-pandemic level was particularly evident in investment in transport equipment and buildings and structures. The Bank suggested that cost pressures and shortages continued to curb current investment spending, and uncertainty relating to demand may hold back investment in the future.

<sup>6</sup> [https://www.oecd-ilibrary.org/economics/inflation-forecast/indicator/english\\_598f4aa4-en](https://www.oecd-ilibrary.org/economics/inflation-forecast/indicator/english_598f4aa4-en)

<sup>7</sup> <https://www.gov.uk/government/publications/energy-bills-support/energy-bills-support-factsheet-8-september-2022>

<sup>8</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/september-2022>

<sup>9</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/apriltojune2022>

<sup>10</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/july2022>

<sup>11</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/apriltojune2022revisedresults>

<sup>12</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/august-2022>

## Job vacancies decrease in the UK

Lower levels of business optimism are beginning to affect UK labour markets. In the period June to August 2022 the number of UK job vacancies was 1,266,000, decreasing 34,000 from the record high witnessed in the previous quarter<sup>13</sup>. This represented the largest quarterly fall since June to August 2020. With an increased number of businesses reporting a hiatus in recruitment, the fall in vacancies may signify uncertainty across the UK economy. Despite this, the total number of vacancies in June to August 2022 was 470,000 (or just over 59%) above the pre-pandemic January to March 2020 level. The relatively high number of vacancies, combined with low levels of unemployment reveal tight labour market conditions in the UK economy.

Early estimates from Pay as You Earn Real Time Information<sup>14</sup> shows a rise in the number of payroll employees in the UK for August 2022 to 29.7m, an increase of 803,000 employees (or 2.8%) over the figure for August 2021, and a rise of over 470,000 since January 2022<sup>15</sup>.

Payroll employment increased by 71,000 employees (0.2%) in the month to August 2022. The early estimate for August 2022 shows that the annual growth rate has fallen this month, but still shows some growth.

There was an increase in payroll employees in the year to August 2022 in most sectors of the UK<sup>16</sup>. However, these changes were uneven. The percentage increase over the year was lowest in wholesale and retail sectors (at 0.6%) and highest in arts, entertainment and recreation (10.2%), accommodation/ food services, and IT (both around 6%). The accommodation and food services sector experienced the largest increase in payroll employees in the year to August 2022 (a rise of 117,000 employees). The only main sectors in the UK to experience a decline in the number of payroll employees in the year to August 2022 were the energy production and supply sector (a decline of 1% or nearly 1,300 employees), and construction (a fall of 0.5% or 6,500 employees).

In Wales the number of payroll employees grew by nearly 3,000 between June and August 2022 to just under 1.3m, a lower growth rate compared with the last period (April to June 2022)<sup>17</sup>. The UK regional data on payroll employees by sector is updated less frequently, but the data to July 2022 shows that the number of payroll employees in Wales in most sectors was higher than pre-pandemic levels. For example, in accommodation and food services the number of payroll employees was 1% above that in February 2020. The sectors where the number of payroll employees were below pre-pandemic levels in the data to July 2022 were manufacturing, energy production/supply, and wholesale/retail.

<sup>13</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/september2022>

<sup>14</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/september2022>

<sup>15</sup> The early estimates are more likely to be subject to later revisions.

<sup>16</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

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



## UK unemployment falls in the three-month period to July 2022

The UK unemployment rate for the three-month period to July 2022 was an estimated 3.6%<sup>18</sup>, 0.2 percentage points lower than the previous three-month period, and 0.3 points below the pre-Covid level. The highest UK regional unemployment rates in the three-months to July 2022 were in the North East (4.7%), West Midlands (4.6%), and Yorkshire and the Humber (4.5%), while the lowest rates were in the South West (2.7%), East Midlands (2.8%) and Northern Ireland (2.9%). In the same period, the unemployment rate in Wales was estimated at 3.2%, a 0.3 point fall from the previous three-month period.

The UK redundancy rate<sup>19</sup> for the three-month period to July 2022 increased on the previous three-month period. According to the Labour Force Survey, the UK redundancy rate increased to 2.3 per 1,000 employees in the three-month period to July, rising from 2.0 per 1,000 employees

in the three-month period to the end of April. The UK redundancy rate saw a peak of 14.5 per 1,000 employees in the three months to October 2020, and a historic low of 1.8 per 1,000 employees in the three-month period to May 2022.

Redundancy rate figures are available in Wales for the three-month period to March 2022<sup>20</sup>. There was a decrease in the redundancy rate in this period (to 2.9 per 1,000 employees), following another decrease in the previous three-month period to February 2022 (to 3.3 per 1,000 employees)<sup>21</sup>. The redundancy rate in Wales in the three-month period to March 2022 was higher than Scotland (2.7 per 1,000 employees), Northern Ireland (1.5 per 1,000 employees), and England (2.5 per 1,000 employees). This data should be treated with a degree of caution as it has not been seasonally adjusted and is based on small sample sizes.

## Unemployment benefit claimants fall

The UK unemployment-related benefit claimant count fell by over 0.36m during the year to August 2022 to 1.54m people<sup>22</sup>. In Wales, almost 64,000 people claimed unemployment-related benefits (equal to 3.3% of the working age population, compared with a figure of 3.7% for the UK) in August 2022. According to the data for August 2022, the Welsh unitary authority areas with the highest proportion of working age population

claiming unemployment-related benefits were Newport (4.7%), Blaenau Gwent (4.1%), Cardiff (3.8%), and Merthyr Tydfil (also 3.8%), and those with the lowest proportions were Powys (2.3%), Monmouthshire (2.5%), Gwynedd (2.6%), and Ceredigion (2.6%). The proportion of the working age population claiming unemployment-related benefits in August 2022 continued to decline in all local authority areas of Wales.

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

<sup>19</sup> 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.

<sup>20</sup> Estimates for later periods have been suppressed on disclosure grounds.

<sup>21</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

<sup>22</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental>

## Economic inactivity increases in the UK

There was a 0.4 percentage point increase in the UK inactivity rate on the quarter to 21.7% in May to July 2022. The ONS Labour Market Overview, UK: September 2022 noted that the main drivers of this increase were in those aged 16 to 24 years, and those aged 50 to 64 years. The increase in economic inactivity in the latest three-month period was mainly due to those inactive because they are students or long-term sick. The economic inactivity rate in Wales increased 2.3 percentage points on the quarter to 25.6% in May to July 2022.

A related important issue, particularly in the context of UK labour market shortages, is the labour market outcomes of those aged over 50. In the UK, there were 386,096 more economically inactive adults aged 50 to 64 years in the May to July quarter of 2022 than in the pre-pandemic period (December 2019 to February 2020)<sup>23</sup>. Annual Population Survey data from the ONS shows that there were 8,000 more economically inactive people in Wales in the year ending 30 June 2022 when compared with the year ending 31 December 2019<sup>24</sup>. Data on the reasons for workers aged over 50 years leaving employment

in the UK since the start of the coronavirus pandemic have been collected as part of the ONS Over 50s Lifestyle Study (OLS)<sup>25</sup>. For those adults aged 50 to 59 from wave 2 of the study (10th to the 29th of August 2022), 25% stated they left work for retirement, while 18% wanted a change in lifestyle, and over seven-in-ten (72%) mentioned they would consider returning to work. Over half (55%) of non-working adults aged 50 to 65 reported being worried about the cost of living (an increase of 10 percentage points from wave 1 of the survey in February 2022). Among the other findings from wave 2 of the OLS were that for adults aged 50 to 65 years who had left their job since the beginning of the pandemic and who would consider a return to work (58%), key factors in choosing a paid job were flexible working hours (32%), good pay (23%) and the ability to work from home (12%).

As part of the UK Government's Growth Plan, announced September 2022 (see later), measures were revealed to give jobseekers over the age of 50 extra time with jobcentre work coaches to aid their return into employment<sup>26</sup>.

<sup>23</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/wave2>

<sup>24</sup> <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Economic-Inactivity/economicinactivityratesincludingstudents-by-welshlocalarea-year-copy>

<sup>25</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/reasonsforworkersagedover50yearsleavingemploymentsincethestartofthecoronaviruspandemic/wave2>

<sup>26</sup> <https://www.gov.uk/government/news/chancellor-announces-new-growth-plan-with-biggest-package-of-tax-cuts-in-generations>

## GDP in Wales increased in 2021 Q4

The quarterly (experimental) GDP estimates show that each of the devolved administrations experienced positive quarterly GDP growth in 2021 Q4. The Welsh economy had the joint-highest quarterly GDP growth at 1.6%, compared with a similar 1.6% in Scotland, 1.4% in England

and 1.0% in Northern Ireland<sup>27</sup>. A degree of caution should be applied to these estimates as regional data can be volatile, and these data are still in the developmental phase and designated as Experimental Statistics by the ONS.

## The value of exports from Wales increased in the year to 2022 Q2

The trade in goods data for the UK regions for the period to 2022 Q2 show that there had been an increase in the value of exports for all UK countries in the twelve months ending June 2022 compared with the previous twelve months<sup>28</sup>. In Wales the value of exports increased by 36.7% to £18.4 billion over the year to June 2022 (compared with an increase of 21.6% in Scotland, 9.8% in England, and 7.8% in Northern Ireland). In comparison with the pre-pandemic year ending June 2019, the value of goods exported from Wales was up £0.7 billion (or 3.7%) demonstrating that the value of goods exports had recovered above pre-pandemic levels<sup>29</sup>. The value of imports

grew in all UK countries in the year to June 2022 compared with the previous twelve months<sup>30</sup>. In Wales the value of imports increased by 43.2% to £20.6 billion over this period (compared to increases of 45.8% in Scotland, and 24.4% in both England and Northern Ireland). As with exports, the value of goods imports for Wales had recovered to pre-pandemic levels (up £1.8 billion, or 9.7%, when comparing year ending June 2019 with year ending June 2022)<sup>31</sup>. The ONS note that a degree of caution should be applied when interpreting data on trade<sup>32</sup>. Data are typically published in current or nominal prices which means they have not been adjusted to remove the effects of inflation.

<sup>27</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/octobertodecember2021>

<sup>28</sup> <https://www.uktradeinfo.com/trade-data/regional/2022/uk-regional-trade-in-goods-statistics-second-quarter-2022>

<sup>29</sup> <https://gov.wales/welsh-international-goods-trade-july-2021-june-2022>

<sup>30</sup> <https://www.uktradeinfo.com/trade-data/regional/2022/uk-regional-trade-in-goods-statistics-second-quarter-2022>

<sup>31</sup> <https://gov.wales/welsh-international-goods-trade-july-2021-june-2022>

<sup>32</sup> <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/may2022>

## UK energy schemes introduced to reduce the impact of the cost-of-living crisis

In early September 2022 the UK Prime Minister announced the Energy Price Guarantee<sup>33</sup> whereby a typical household will now pay up to an average of £2,500 a year for the next two years. The Bank of England observed that the Guarantee "...is likely to limit significantly further increases in CPI inflation and reduce its volatility..."<sup>34</sup>. Details of the Energy Bill Relief Scheme for Businesses<sup>35</sup> were also revealed in

September 2022, committing the Government to providing a discount on wholesale gas and electricity prices for non-domestic customers for an initial six-month period (with on-going support for vulnerable industries after this time). Whilst these measures will limit increases in energy costs, there are concerns over UK gas shortages this winter.<sup>36</sup>

## UK Growth Plan announcements cause turmoil in the financial markets

On 23rd of September 2022 the Chancellor of the Exchequer revealed the UK Government's Growth Plan aimed at reducing energy costs and inflation, while delivering higher productivity and wages<sup>37</sup>. Among the announcements in the 'mini budget' was a cut in the planned Corporation tax rise (holding it at 19%), cuts in Stamp Duty, and a cut in the basic rate of income tax to 19% (a year ahead of schedule). The Plan also included new legislation to reduce barriers to the planning and building of new roads, rail and energy infrastructure. Also announced was a reduction in the top rate of income tax to 40%. The

amount of borrowing estimated to be needed to finance these cuts, combined with the lack of a published assessment by the Office for Budget Responsibility, resulted in a loss of confidence in the UK economy<sup>38</sup> and a subsequent sharp exchange rate fall for the pound against the US dollar and increased borrowing costs for the UK Government. Ten days after the initial announcement the UK Government U-turned on the proposals to lower the top rate of income tax and a degree of stability returned to the financial markets at that time.

<sup>33</sup> <https://www.gov.uk/government/news/government-announces-energy-price-guarantee-for-families-and-businesses-while-urgently-taking-action-to-reform-broken-energy-market>

<sup>34</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/september-2022>

<sup>35</sup> <https://www.gov.uk/guidance/energy-bill-relief-scheme-help-for-businesses-and-other-non-domestic-customers>

<sup>36</sup> <https://www.ft.com/content/f737a827-a069-41c4-8141-73b8f9f56fae>

<sup>37</sup> <https://www.gov.uk/government/news/chancellor-announces-new-growth-plan-with-biggest-package-of-tax-cuts-in-generations>

<sup>38</sup> The Economist, October 1st, 2022 edition. The World this week, Business section.

## UK and Welsh economy forecasts

The September HM Treasury forecast publication contained a comparison of independent forecasts received between the 1st and the 22nd of September<sup>39</sup>. The average forecast for UK GDP growth in 2022 was 3.6%. The average forecast for GDP growth for 2023 has been downgraded compared with forecasts made in the previous month, from 0.3% in the August forecast, to 0.1% in the September forecast. The IMF's July 2022 World Economic Outlook<sup>40</sup> forecasts for UK GDP growth have been downgraded substantially to 3.2% for 2022 and 0.5% for 2023 (from 4.7% and 2.3% respectively in the January 2022 publication). Significantly, in

early August, the Bank of England's projection for UK GDP growth in 2023 was -1.5%, a downgrade from the -0.25% forecast in May.<sup>41</sup>

In their Summer UK Economic Outlook, published in August 2022, the National Institute of Economic and Social Research (NIESR) cut its UK GDP growth forecast for 2023 to 0.5% from 0.8%<sup>42</sup>. NIESR noted that Welsh economic output (GVA) continues to recover from the pandemic at a similar magnitude to the UK average but economic weaknesses, such as stagnating employment growth and lagging productivity levels, remained. These economic weaknesses could negatively impact future growth.

<sup>39</sup> <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-september-2022>

<sup>40</sup> <https://www.imf.org/en/Publications/WEO/Issues/2022/07/26/world-economic-outlook-update-july-2022>

<sup>41</sup> <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2022/august/monetary-policy-report-august-2022.pdf>

<sup>42</sup> <https://www.niesr.ac.uk/wp-content/uploads/2022/08/NIESR-UK-Economic-Outlook-Summer-2022.pdf>

- The FSB Small Business Confidence Index in Wales decreased sharply in 2022 Q2.
- Small business confidence has been damaged by cost pressures and fears that the UK economy might be entering a recession.
- The number of business births and deaths in Wales decreased between 2022 Q1 and 2022 Q2.
- The number of registered company insolvencies in England and Wales increased during the year to August 2022.

## Small business confidence decreases in the UK in 2022Q2

The UK small business confidence index<sup>43</sup> dropped sharply from 15.3 in 2022 Q1 to -24.7 in 2022 Q2. This index has now reached its lowest level excepting the period of Covid-19 lockdowns.<sup>44</sup> This is the second largest reduction since the establishment of the index. While the lingering influence of Covid-19 has had less impact on the index, this has been replaced by concerns over UK economic growth prospects and inflation.

The UK wholesale and retail confidence index saw the largest quarterly decrease plunging by 57.0 points to -65.2. The construction sector experienced the second largest decrease among all sectors, with its confidence index falling

from 19.9 to -34.3. The indices of other sectors also went into negative territory. The fall in retail and wholesale confidence is of particular concern, indicating that consumer spending patterns may be changing in expectation of a higher proportion of household income being directed towards energy costs.

The Federation of Small Businesses reported an increase in business operating costs for five quarters. For example, 89% of respondents reported higher costs than one year ago and only 3.1% reported a decrease. Cost pressures reflected input shortages and disruption to global supply chains, each worsened due to geopolitical events.

<sup>43</sup> "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous three months?' The share of firms reporting 'much improved' are given the 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).

<sup>44</sup> FSB (2022). FSB voice of small business index, Quarter 2 2022. Available at: <https://www.fsb.org.uk/static/7bdd080e-a8d0-4a2a-a3f22c4cc5a6bfde/FSB-Small-Business-Index-Q2-2022.pdf>

## Welsh SME confidence fell from a score of 14 in 2022 Q1 to -24 in 2022 Q2

The Federation of Small Businesses reported that SME confidence decreased across all UK regions in 2022 Q2. Figure 1 shows the index for UK regions from 2021 Q3 to 2022 Q2. The index score was negative for all regions in

2022 Q2, with the highest scores for the East of England (-10), followed by London (-14). The East Midlands experienced the largest fall in the quarter to 2022 Q2 from 17 to -43.

**Figure 1.**  
Small Business Index, UK regions, 2021Q3-2022Q2



Source: [FSB Voice of Small Business Index 2022 Q2](#)

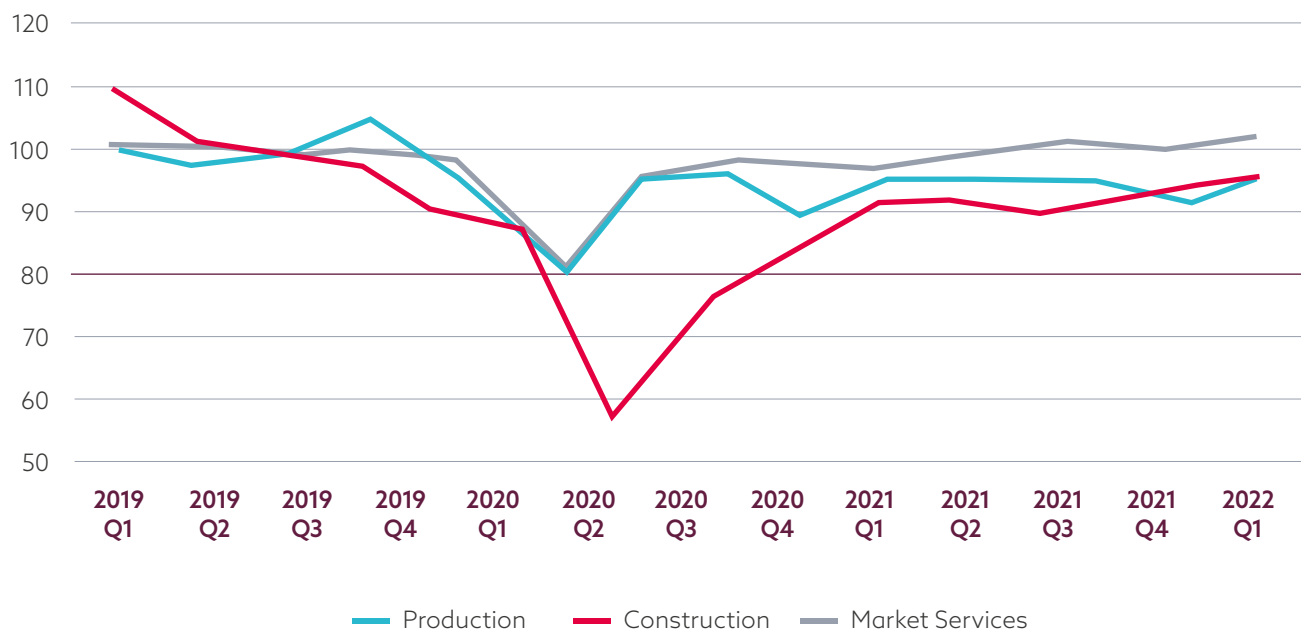
<sup>25</sup> <https://www.bankofengland.co.uk/decision-maker-panel/2022/march-2022>

## Generally positive output growth across Welsh sectors in 2022 Q1

Figure 2 reveals the trend in Welsh production, construction, and market service output indices from 2019 Q1 to 2022 Q1. Output in these industries recovered from the sharp falls in 2020 Q2. After a decrease in 2021 Q1, the index of production increased to 94.5 by 2022 Q1.

The index of market services stayed relatively static in the period from 2021 Q3 to 2022 Q1. Following the forced stoppages during the lockdown in 2020 Q1 and Q2, the construction index experienced a robust recovery, from 55.4 in 2020 Q2 to 94.4 in 2022 Q1.

**Figure 2.**  
Welsh output indices: trend 2019 Q1 - 2022 Q1 (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](#)



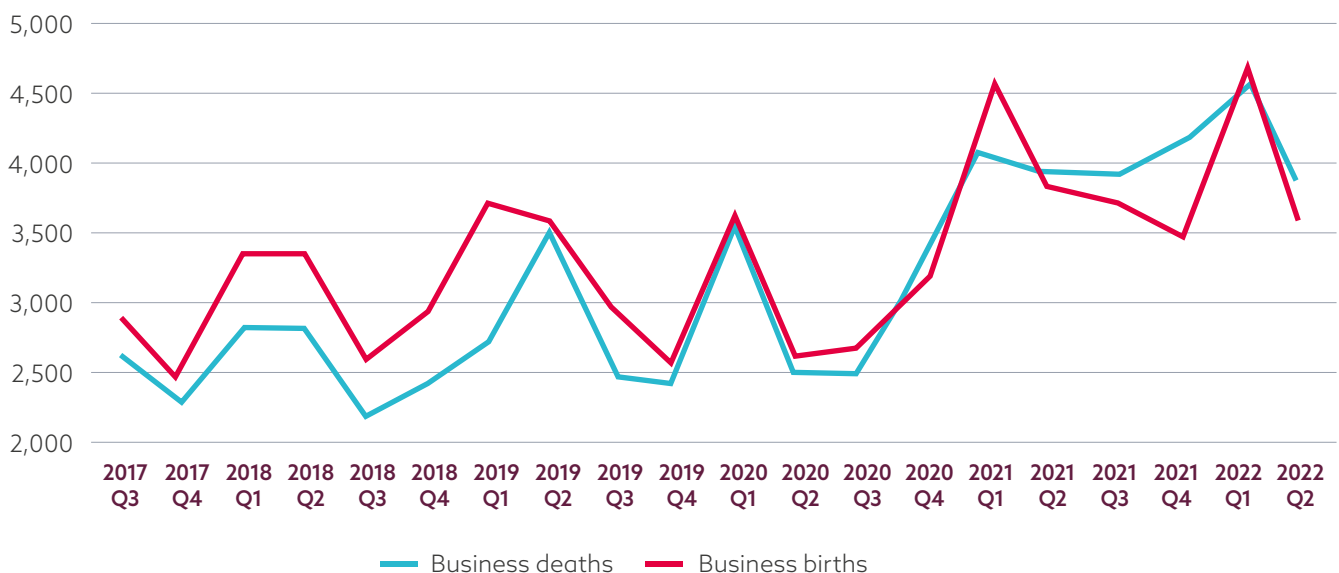
## Decrease in both business births and deaths in the UK and Wales in the quarter to 2022 Q2

According to the ONS<sup>45</sup>, UK business births fell in the quarter to 2022 Q2, decreasing 31.4% to 93,500. The number of business closures also decreased from 137,210 in 2022 Q1 to 113,700 in 2022 Q2.

The number of UK business closures in 2022 Q2 was 27.1% higher than the average of business closures in the second quarter of the calendar years 2018-2021. Business births were more stable over this same period increasing by 1.6%. Compared to 2020 Q1 agriculture, forestry and fishing, transport and storage, and retail sectors experienced the greatest increase in business deaths.

An increase in both business births and deaths in 2022 Q1 was followed in Wales by a decrease in both business births and deaths in 2022 Q2. Figure 3 illustrates the longer-term variation in business births and deaths from 2017 Q3 to 2022 Q2. After a new high in the number of business closures in 2022 Q1 (4,610), the number decreased to 3,860 in 2022 Q2. This number is slightly lower than that of the same quarter of the 2021 calendar year (3,950). Similarly, the number of business births in 2022 Q2 (3,585) is lower than that in the previous quarter (4,715) and the same quarter of the previous year (3,865).

**Figure 3.**  
Quarterly business births and deaths in Wales 2017 Q3-2022 Q2



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

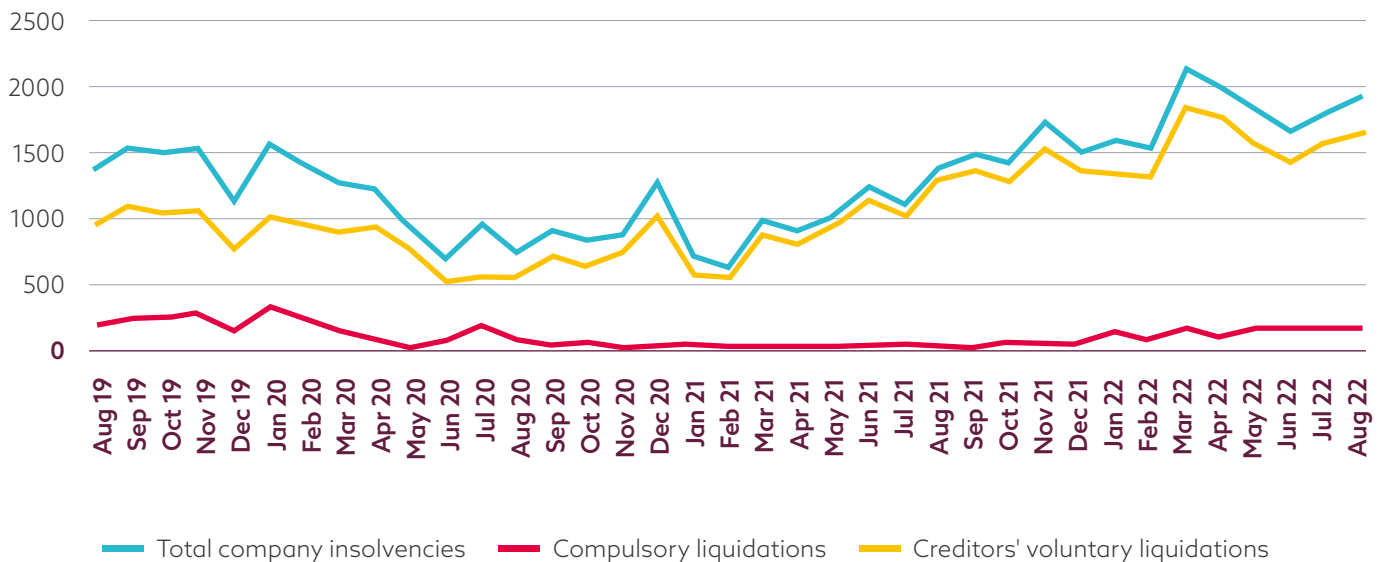
<sup>45</sup> <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticsuk>

## The number of registered company insolvencies increased in England and Wales in the year to August 2022

Figure 4 reveals the trend of registered company insolvencies in England and Wales<sup>46</sup>. This series provides some indications of future business deaths as reported in Figure 3. In England and Wales, the number of insolvencies was 1,933 in August 2022, which is higher

than the previous year (1,348 in August 2021) and before the start of first lockdown (1,345 in February 2020). Creditors' voluntary liquidations were the major driver of the overall insolvencies. By contrast, only 142 out of 1,933 insolvencies were compulsory liquidations.

**Figure 4.**  
*Monthly registered company insolvencies in England and Wales*



**Source:** Insolvency Service (compulsory liquidations only); Companies House (all other insolvency types)

<sup>46</sup> <https://www.gov.uk/government/statistics/monthly-insolvency-statistics-august-2022>

On a more positive note, the Global Entrepreneurship Monitor found that the rate of total early-stage entrepreneurial activity (TEA) in the UK in 2021 was 11.5%, significantly higher than the rate in 2020 (7.5%) and the rate of Germany (6.9%) and France (7.7%).<sup>47</sup> TEA in Wales reached 10.3% in 2021, significantly above the rate of 6.5% in 2020<sup>48</sup>. Both the female rate (9.8%) and male rate (10.7%) of TEA were the highest on record for Wales.

The BVA BDRC SME Finance Monitor analyses the previous 3-month rolling data to the end of July 2022<sup>49</sup>. The Monitor revealed that an estimated 28% of all SMEs reported growth in the past 12 months; this percentage grew to 45% in the case of businesses employing between 10-49 people. In terms of demand for finance, future growth aspirations are important. The Monitor reported that in the 3 months to July 2022 that 43% of SMEs had plans to grow. At the end of the second quarter in 2021 the percentage of SMEs that had plans to grow was 52%. Once again growth aspirations were strongest in those SMEs employing between 10-49 people where 61% had plans to grow in the 3 months to July 2022 data. Aspirations for growth were much lower in those businesses with zero employees

where the 3 months to July data suggested just 40% had plans to grow. Some 59% of SMEs were in a 'good mood' about their businesses but with this percentage growing to 84% in those SMEs employing between 50-249 people.

According to the Monitor, 35% of SMEs questioned in the three months to July 2022 had seen business decline in the previous year, marking an improvement from 2021Q1 when the equivalent figure was 65%. Meanwhile, 36% of SMEs reported remaining the same size.

The ONS Business Impacts and Conditions Survey<sup>50</sup> (BICS) for the period 5 September 2022 to 18 September 2022 (Wave 65) revealed that the proportion of all UK businesses reporting they were fully trading had increased from 76.7% in the period 27 December 2021 to 9 January 2022 (Wave 47) to 84.4%. Meanwhile, the percentage of businesses that paused trading and do not intend to restart, or permanently ceased trading, slightly decreased from 6% to 5.5% during this period.

The BICS report also highlighted that 44.1% of all respondents' production and/or suppliers were affected by increasing energy prices, with this figure higher for Wales (at 47.2%).

## Reduction in town centre footfall

A further cause for concern in the Welsh SME retail sector was highlighted in footfall figures for August 2022. Research from the Welsh Retail Consortium showed that despite an increase in footfall numbers in Wales from July 2022 (of 2.7 percentage points) attributed to

summer holiday shoppers, the figures were markedly below pre-pandemic levels. August 2022 figures were reported to be 13.1% less than August 2019 in Wales, and with only the North East of England having a more severe decline in the UK over the same period.<sup>51</sup>

<sup>47</sup> <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2022/09/98522-GEM-Report-UK-2022.pdf>

<sup>48</sup> <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2022/09/98525-GEM-Report-Wales-2022-1.pdf>

<sup>49</sup> <https://www.bva-bdrc.com/wp-content/uploads/2022/09/SME-Monthly-charts-July-FINAL.pdf>

<sup>50</sup> <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheconomy>

<sup>51</sup> <https://www.niesr.ac.uk/wp-content/uploads/2022/08/NIESR-UK-Economic-Outlook-Summer-2022.pdf>

- Interest rates have risen and lending to SMEs has fallen in 2022.
- Over half of Welsh SMEs had a Caution credit rating in September 2022.
- The SME Finance Monitor reveals some reduction in SMEs using external finance in the period to July 2022.

The second quarter of 2022 saw little change in the overall availability of business credit according to the Bank of England Credit Conditions 2022 Q2 Survey<sup>52</sup>. Lenders reported changes for the three months to end-May 2022 (Q2), in comparison to the period between December and February and expected changes in the three months to end-August 2022.

Lenders reported that credit availability to business was unchanged in the three months to

end May 2022, and this was regardless of the size of corporate borrowers. Lenders also expected credit availability to remain unchanged during June-August 2022. Similarly, lenders revealed that they expected the demand for corporate lending to decrease in the June-August 2022 period for all business sizes (but with medium-sized businesses expected to experience a greater decrease than small and large firms). The key factor contributing to the expected lower credit demand was the changing economic outlook.

## Expectations of future business defaults increased

The Bank of England Credit Conditions 2022 Q2 Survey also revealed that expectations in respect of the default rate on loans to small businesses had increased from +9.3 in the 3 months prior to the Survey to +24.7 for the three months following the Survey. In 2021 Q2 the comparable

figures were +11.9 and +45.7 respectively.<sup>53</sup> Moreover, future demand for credit card lending from small businesses and unsecured lending also saw relatively neutral balances for 2022 Q3 (i.e., 0, and +0.3) respectively.

<sup>52</sup> <https://www.bankofengland.co.uk/credit-conditions-survey/2022/2022-q2>

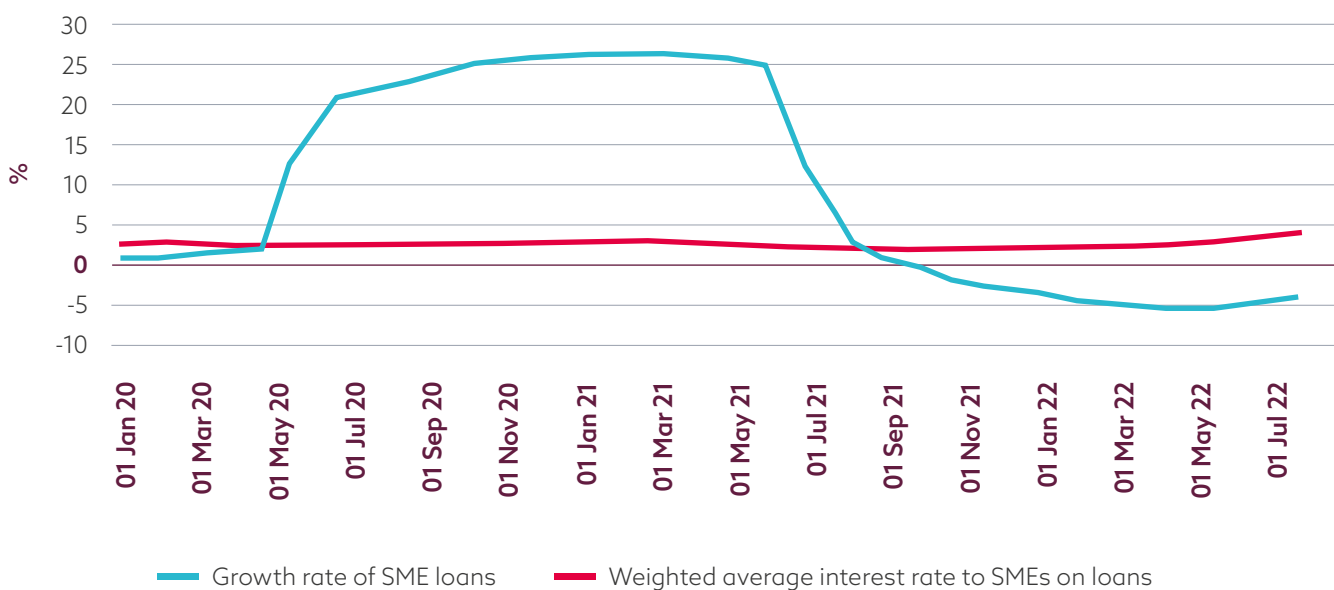
<sup>53</sup> In the Bank of England Credit Conditions Survey, in order to calculate aggregate results, each lender is assigned a score based on their response. Lenders who report that credit conditions have changed 'a lot' are assigned twice the score of those who report that conditions have changed 'a little'. These scores are then weighted by lenders' market shares. The results are analysed by calculating 'net percentage balances' – the difference between the weighted balance of lenders reporting that, for example, demand was higher/lower or terms and conditions were tighter/looser. The net percentage balances are scaled to lie between  $\pm 100$ . Positive balances indicate that lenders, on balance, reported/expected demand/credit availability/defaults to be higher than over the previous/current three-month period, or that the terms and conditions on which credit was provided became cheaper or looser respectively.

## Declines in SME lending and increasing interest rates

Figure 5 depicts the monthly growth rate of SME loans based on Bank of England data.<sup>54</sup> The monthly growth rate was negative during 2022 Q2 (around -5%). The monthly growth rates have decreased from 25.4% in April 2021 to -5.1% in March 2022 and remained relatively stable since. Figure 5 also suggests that the weighted average interest rate on SMEs loans

has steadily increased from 2.66% in November 2021 to 4.19% in August 2022.<sup>55</sup> These rates are set to further increase following the September 2022 announcement by the Bank of England that interest rates would increase to 2.25%<sup>56</sup> and with expectations of additional increases in the Bank rate in the near future.

**Figure 5.**  
Growth rate of SME loans and interest rates on SME loans



Source: [Bank of England](#)

Lending to SMEs fell to £114.8 bn in Britain in 2021 Q4 (from £120.3 bn in 2021 Q3).<sup>57</sup> Total lending in Britain in 2021 as a whole was £487.4 bn, up from £451.6 bn in the previous calendar

year (an increase of close to 8%). In 2021 Q4, total SME lending was £4.8bn in Wales and the figure for the whole year was around £20bn, up around 6% from the previous calendar year.

<sup>54</sup> This is the 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. Bank of England series RPMZO8M

<sup>55</sup> 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. Bank of England series CFMZ6HQ

<sup>56</sup> [Credit Conditions Survey - 2021 Q4 | Bank of England](#)

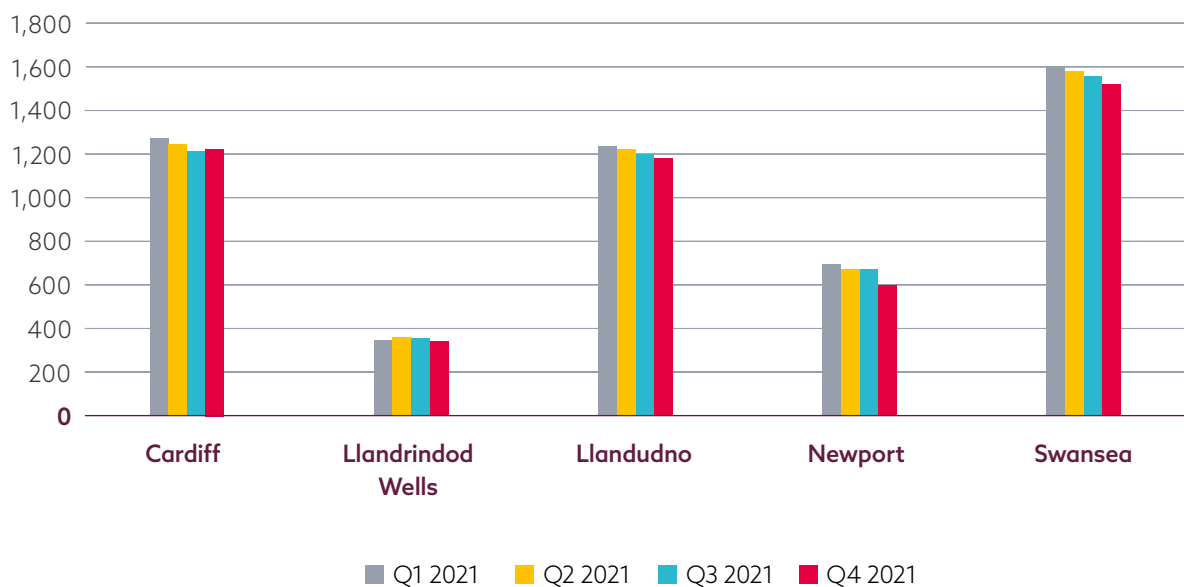
<sup>57</sup> <https://www.ukfinance.org.uk/data-and-research/data/sme-lending-within-uk-postcodes>

## A downward trend in SME lending in Wales during 2021

In Wales there has been a slight fall in lending for each of the four quarters to 2021Q4, decreasing from £5.2bn in 2021 Q1 to £4.8bn in 2021 Q4. Figure 6 depicts estimates of lending by the main Wales postcode areas

for the four quarters ending 2021 Q4. This shows the quarter-on-quarter values of lending in each postcode area, with little change in the values in each area over the period.

**Figure 6.**  
SME lending by Welsh postcode area (£m year to 2021Q4)



Source: [UK Finance Postcode Lending Data: SMEs](#)

## Over half of Welsh SMEs had a Caution credit rating in September 2022

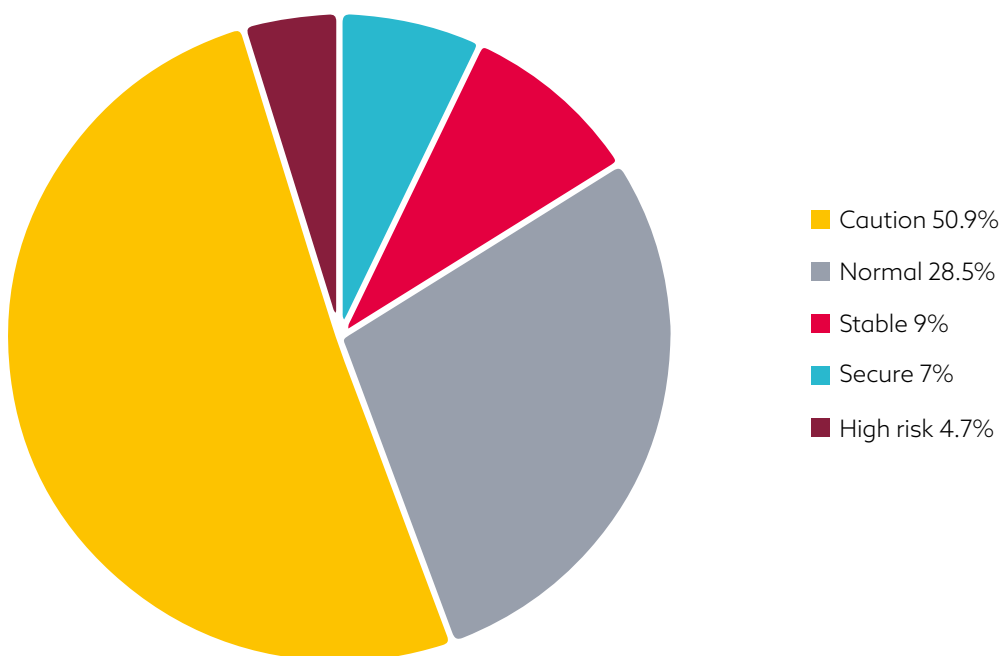
The series of Economic Intelligence Wales Quarterly reports provide a regular update on the credit risk associated with Welsh SMEs. In September 2022 the Bureau van Dijk FAME database was examined and credit score information was available for a total of 85,006 SME companies. Credit risk is defined here as either Secure, Stable, Normal, Caution or High credit risk. The probability 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.

Of the total of over 85,000 identified Welsh SMEs, just over 43,200 (50.9%) fell into the Caution category, and close to 4,000 (4.7%) were rated as High risk (see Figure 7). It is difficult with this data to compare one period with another. However, the 2021/22 Annual report revealed very similar proportions of Welsh SMEs in the Caution and High Risk categories<sup>58</sup>.

**Figure 7.**

*Estimated percentages of Welsh SMEs falling into different risk classifications, September 2022*



<sup>58</sup> [https://developmentbank.wales/sites/default/files/2022-08/Annual%20report%202021\\_22%20Economic%20Intelligence%20Wales.pdf](https://developmentbank.wales/sites/default/files/2022-08/Annual%20report%202021_22%20Economic%20Intelligence%20Wales.pdf)

## The proportion of SMEs using external finance declined in the period to July 2022

The SME Finance Monitor<sup>59</sup> findings for the 3-month period to the end of July 2022 revealed that 37% of UK SMEs were using external finance, lower than the 45% in 2021 Q2. This figure was higher for those businesses employing 10-49 people (56%). Compared to a similar period in previous years, the percentage of SMEs that use external finance overall has declined across all size bands. SMEs that participate in exporting were found to be much more likely to be using external finance. Loans/commercial mortgages and credit cards were the most common forms of finance used. The proportion of survey respondents who were permanent non-borrowers increased to 47% in the 3 months to July. In 2021 Q2 the comparable figure was 45%.

The Monitor also reveals that the proportion of SMEs injecting personal funds into their

businesses was 34% in the 3 months to July 2022, lower than the 39% reported in 2022 Q1. Breaking down the 34% for the 3 months to July 2022, 21% felt they had to inject funds, while 13% chose to inject funds. The proportion of SMEs happy to use finance to grow their businesses stood at 32% in July, with this little changed since 2021 Q4. However, the same figure for those SMEs focused on the international market was much higher (46%).

Finally, 29% of SMEs in the three months to July 2022 reported that the current economic climate was a major obstacle to running a business over the next year. Meanwhile, 42% reported that they were significantly affected by increasing costs, which is slightly lower than the figure in April (44%). The Monitor revealed that export orientated SMEs were less likely to be affected by increasing costs.

## Recent research findings on Covid-19 related interventions

Recent academic papers<sup>60</sup> have examined state financial interventions through the Covid-19 period. Calabrese et al. (2022) who focused on support offered between April and September 2020, found that 92.1% of loans to SMEs were supported by the UK government in the period; and the demand, supply, and government share of SME lending increased in the period. They found that better-performing firms were more likely to get loans, and micro and small businesses had the highest demand for loans. Belghitar et al. (2022) found that government support schemes, including the Coronavirus Job Retention Scheme and the Bounce Back Loan Scheme, reduced the

number of SMEs with negative earnings and reduced the number of jobs at risk. They also suggested that worse-performing firms benefitted more from these schemes, but that industries worst hit by Covid-19 did not always benefit most from these schemes.

The Welsh Government aimed to support SMEs impacted by Covid-19 through the Economic Resilience Fund (ERF). Economic Intelligence Wales' forthcoming third report on Covid-19 interventions will investigate the effectiveness of ERF in supporting businesses in Wales. The report will include the analysis of a beneficiary survey, as well as the analysis of administrative data for ERF phases 3-7.

<sup>59</sup> SME Finance Monitor 3 month rolling analysis to end July 2022. BVA [BDRC BVA BDRC | SME Finance Monitor \(bva-bdrc.com\)](https://www.bva-bdrc.com)

<sup>60</sup> Belghitar, Y., Moro, A., & Radić, N. (2022). When the rainy day is the worst hurricane ever: The effects of governmental policies on SMEs during COVID-19. *Small Business Economics*, 58(2), 943-961.

Calabrese, R., Cowling, M., & Liu, W. (2022). Understanding the dynamics of UK Covid-19 SME financing. *British Journal of Management*, 33(2), 657-677



- In 2022/23 Q1 the Development Bank of Wales made 122 investment transactions with a value of £23.8m.
- Investments made in 2022/23 Q1 were characterised by relatively low numbers of new jobs, but with relatively high levels of safeguarded jobs compared to previous quarters.
- The construction sector secured the highest value of investments in 2022/23 Q1, however the manufacturing sector safeguarded the most jobs in the period.

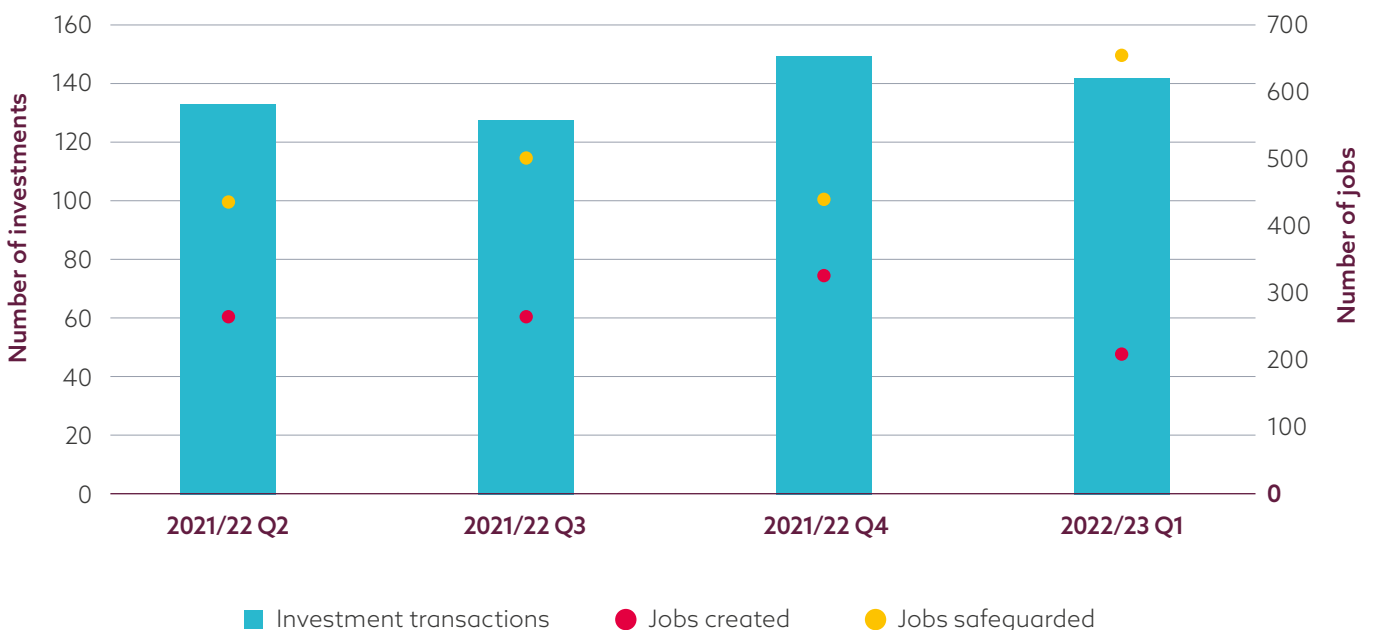
## In the opening quarter of 2022/23, the Development Bank of Wales made a total of 122 investments, connected with 211 new jobs, and 650 safeguarded jobs.

Figure 8 shows a decline in the number of investments in the first quarter of the 2022/23 financial year, compared with the final quarter of 2021/22. This is a pattern also observed in the previous year, suggesting that businesses are less likely to seek finance in the opening months of the financial year. Whilst the new jobs created by the investments made in the opening quarter

of the financial year is down on the previous three quarters shown in Figure 8, the number of jobs safeguarded is much higher. This is possibly reflecting the current difficult economic climate, where these firms may be seeking finance largely to survive and maintain/safeguard their activity, rather than seeking to grow.

**Figure 8.**

*Investment transactions and jobs created and safeguarded, 2021/22 Q2 - 2022/23 Q1*



## The total value of investments made in 2022/23Q1 was £23.8m

The value of the investments in the first quarter of 2022/23 was also below the levels of the previous three quarters, both in terms of loan and equity finance (Figure 9). New loan investment was £21.8m in 2022/23Q1, down from £27.7m in the final quarter of 2021/22, and from £26m in 2021/22Q3. The value of equity investments made in 2022/23 Q1 was £2m, compared with £2.6m in 2021/2 Q4, £1.9m in 2021/22 Q3, and £5m in the second quarter

of 2021/22Q2. The analysis of investments on a quarterly basis inevitably means that figures for any individual quarter may be influenced by one or two major investment deals during the period. However, the value of equity finance remains relatively low when compared with loan finance. Research suggests that SMEs are generally less willing to consider equity finance options, preferring internal finance or bank loans/overdrafts<sup>61</sup>.

**Figure 9.**  
New investment by type (£m) 2021/22Q2 - 2022/23Q1



<sup>61</sup> See for example [https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report\\_final.pdf](https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf)

## North Wales and South East Wales receive similar levels of investment funds in 2022/23Q1

The South East region of Wales has the highest business population, and typically receives the largest share of Development Bank investments by number and value. However, in the opening quarter of 2022/23, the value of investments received by businesses in North Wales and South East Wales were only marginally different (£8.8m in North Wales, and £8.9m in South

East Wales, see Figure 10). There were £6.1m of investments made to businesses in Mid and West Wales. The investments made in 2022/23 Q1 created or safeguarded almost 500 jobs in South East Wales, compared with 230 jobs in North Wales, and almost 140 jobs in Mid and South West Wales.

**Figure 10.**  
*Investment by location, 2022/23 Q1*

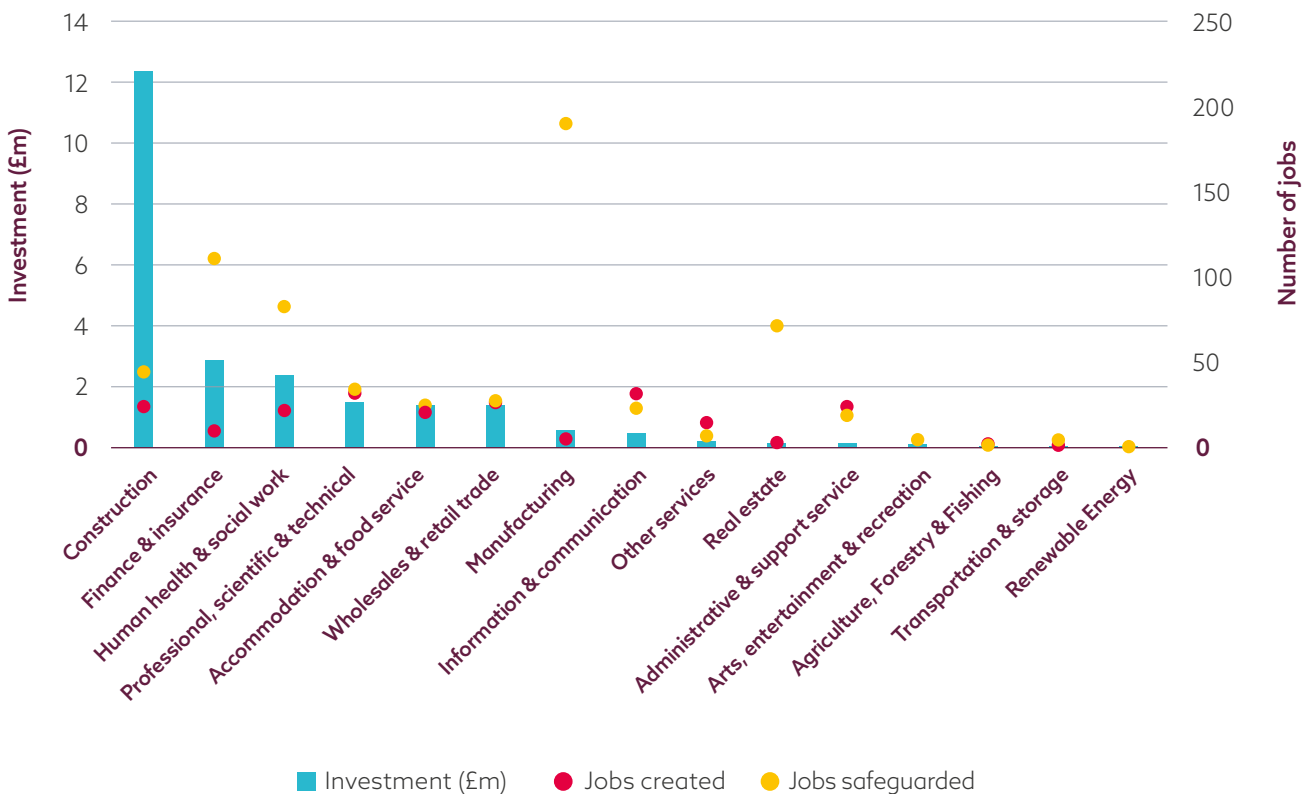


## The manufacturing sector received a small share of total investment funds but safeguarded the most jobs

Figure 11 shows that the majority of investment funds were secured by the construction industry, which accounted for over half of investments made in 2022/23 Q1 by value. A proportion of these investments are from property related funds (where jobs are not a key performance indicator), hence the relatively low numbers of new and safeguarded

jobs in comparison to the value of investment in this industry. In the manufacturing sector, the less than £1m of investment has been successful in safeguarding the most jobs in 2022/23 Q1 (193 jobs). Other sectors with high numbers of safeguarded jobs in the first quarter of 2022/23 include finance and insurance (111 jobs) and human health and social work (84 jobs).

**Figure 11.**  
*Investment and associated employment by industry 2022/23Q1*



The review of UK and Welsh economic conditions in this Quarterly report reveals a very challenging outlook for the winter months ahead. The new Prime Minister faces an economic slowdown together with a growing storm over energy supply and prices.

A range of measures were announced by the UK Government in the early Autumn of 2022 to help households and businesses through the cost-of-living crisis. Whilst the Energy Price Guarantee for households reduced some of the 'uncertainty around the outlook for UK retail energy prices'<sup>62</sup>, the response to the 'mini-budget' was turmoil in financial markets. Some degree of stability was returned following the change in decision relating to the top rate of income tax. The announced cuts in taxation, and additional spending add pressure to the UK finances, and with these following on from increased public expenditure in the wake of the Covid-19 lockdowns from March 2020. The current economic reality leaves the UK Government with limited room for manoeuvre in its stated aim of encouraging growth in the UK economy.

Whilst inflation expectations were curtailed by the Energy Price Guarantee, the prospect of inflation rates of above 10% in the months to come brings the likelihood of further interest rate rises by the end of 2022. In addition, this report provides some indication that mounting uncertainty is beginning to impact labour markets which are under increasing strain from rising economic inactivity rates. Of real concern are likely changes in the direction of household spending in the final quarter of this year, and with the possibility of a drift towards a recession at the end of this year.

Household consumption in the UK is estimated to have fallen in the second quarter of this year, and retail sales have been declining since the summer of 2021, with rising prices and cost-of-living affecting sales volumes.<sup>63</sup>

For SMEs in the UK and Wales there will be less interest in whether economic output technically falls in two consecutive quarters but rather the length and severity of a recession. Inevitably the economic conditions are impacting SME demand for finance and with this report revealing reduced demands for external finance and some expectations of increases in business defaults. Lending to SMEs in Wales also appears to be declining through 2022.

In this economic context it is significant that the Development Bank of Wales in the opening quarter of 2022/23 was able to make 122 investment transactions, and with these connected with over 850 new and safeguarded jobs. Also encouraging was that the number of investment transactions in 2022/23 Q1 was only just below the number of transactions in 2021/22 Q3 and 2021/22 Q2. Progress in terms of investment transactions for the second half of this year will need to be followed carefully, as will the extent to which business demands for finance change from growth finance through to working capital support in this highly uncertain business environment.

<sup>62</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/september-2022>

<sup>63</sup> <https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/august2022>

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>

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**developmentbank.wales**

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