

# Economic Intelligence Wales

## *Quarterly report*

**February 2023**

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# Executive summary

- The global economy continued to face major challenges in 2022 Q3 with impacts from the conflict in Ukraine, inflationary pressures, and the fall-out from China's response to the Covid-19 pandemic.
- Revised UK GDP growth estimates show that the economy contracted by 0.3% in the quarter to 2022 Q3.
- The outlook for the UK economy remains sluggish characterised by inflationary pressures, the cost-of-living crisis, and industrial action.
- The FSB UK Small Business Confidence Index plummeted to a new low in 2022Q3.
- The default rate on UK loans to small businesses increased in 2022Q3.
- The cost of borrowing increased for small firms during 2022.
- In 2022/23 Q2 the Development Bank of Wales made 121 investments with a value of £31m. These investments created or safeguarded 870 jobs and supported 23 start-ups.

The outlook for the global economy in 2022 and into 2023 remained challenging with impacts from the conflict in Ukraine, inflationary pressures, and the fall-out from China's response to the Covid-19 pandemic.

**The IMF World Economic Outlook for October 2022 forecasted 3.2% global GDP growth in 2022 and 2.7% in 2023.**

A cost-of-living crisis has arisen in many economies during the latter half of 2022 with rising inflation resulting in stagnant or falling real wages. The **OECD forecasted an 8.9% annual increase in consumer price inflation in the UK in 2022, decreasing to 6.6% in 2023.**

Following the reversal of almost all of the measures in the UK Growth Plan 2022 due to a loss of confidence in the UK economy by the financial markets, the new Chancellor of the Exchequer presented the **Autumn Statement** to Parliament. Measures included **increasing the Energy Profits Levy by 10 percentage points to 35% on energy sector businesses making extraordinary profits.**

In January 2023 the UK government announced a scale back in support to businesses relating to energy bills. From April 2023 the **new Energy Bill Discount Scheme for businesses**, charities and the public sector will enable eligible organisations to receive discounts on high energy bills until the end of March 2024.

With inflationary pressures gaining strength during 2022, and many workers facing a reduction in their real wages, the UK saw an increase in industrial unrest. Data from the ONS indicates that **417,000 working days were lost in the UK because of labour disputes in October 2022; the highest number since November 2011.**

In the third quarter of 2022 UK GDP is now estimated to have shrunk by 0.3%. This figure has been revised down from the previous estimate of a contraction of 0.2%.

The **UK unemployment rate for the three-month period to October 2022 was an estimated 3.7%**, 0.1 of a percentage point higher than the previous three-month period, and 0.2 points below the pre-Covid level.

# Executive summary

**Small business confidence plummeted** to its lowest levels outside of the Covid-19 lockdowns. The small business confidence index decreased across most major UK industries in 2022Q3. Welsh SME confidence continued falling in 2022Q3. The index for Wales decreased from -24 to -29 between 2022Q2 and 2022Q3.

**UK business births in 2022Q3 were 70,225 compared to 84,435 in the same quarter in the previous year.** The number of business closures also decreased from 100,835 in 2021Q3 to 93,315 in 2022Q3. **Wales has followed a similar trend to the UK, with both business births and deaths sharply decreasing for two consecutive quarters since 2022Q1.**

**The number of registered company insolvencies in England and Wales was 2,029 in November 2022, having risen for two consecutive months.** This number is also higher than the figure in the same calendar month in 2021 (1,676). Creditors' voluntary liquidations were the major driver in overall insolvencies.

The BVA BDRC SME Finance Monitor revealed that an estimated **26% of UK SMEs reported growth in the 12 months to September 2022.** The Monitor reported that 43% of UK SMEs had plans to grow in 2022Q3.

The ONS Business Impacts and Conditions Survey (BICS) for the period 28 November to 11 December 2022 showed that an estimated 18% of UK businesses reported an increase in the prices of goods or services sold compared to November.

The Bank of England Credit Conditions 2022Q3 Survey **revealed some stability in the overall availability of business credit for businesses of all sizes for Q3,** but with the overall availability of credit expected to decline slightly in Q4. The Survey also revealed that

the demand for corporate lending from small and large companies slightly decreased in Q3, and that from medium-sized firms was largely unchanged in Q3. The Survey also reported an increasing default rate on loans to SMEs.

The Bank of England Agents' Summary of business conditions indicated that credit availability for businesses of all sizes had decreased in both 2022Q3 and Q4.

**Interest rates on SME loans have increased for 12 consecutive months,** from 2.65% in October 2021 to 4.89% in October 2022.

SME lending in Wales fell significantly in the first half of 2022. **Total SME lending in Wales decreased to £4.59bn in the first half of 2022, lower than half of the volume in the second half year of the 2021 year (£9.78bn).**

The SME Finance Monitor revealed that **the percentage of SMEs that were using external finance decreased from 40% in 2022Q1 to 33% in 2022Q3.** The proportion of survey respondents who were permanent non-borrowers increased to a record high of 51% in 2022Q3.

In the second quarter of 2022/23, the **Development Bank of Wales made a total of 121 investments, connected with 322 new jobs, and 548 safeguarded jobs.**

**The total value of Development Bank investments made in 2022/23Q2 was £31m.** The average value of each investment in 2022/23 Q2 was almost £257,000, compared with average values of less than £200,000 in 2021/22 Q4, and 2022/23Q1. During the last four quarters to 2022-23 Q2, 122 start-ups have been supported by Development Bank funds. South east Wales received the highest levels of investment funds in 2022/23 Q2 with £13m, followed by mid and south west Wales at £10.7m.

This is the second 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 second 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 was developed during a difficult time for the UK economy. The close of 2022 and the early weeks of 2023 have seen a wave of strike actions across the UK. This report provides some evidence that the financial market turmoil caused by the September budget statement has somewhat abated. There is also the prospect that the inflation rates that have hit the UK economy during 2022 might now be falling. However, in the first quarter of this year pressures caused by energy price remain, and with many firms likely to be impacted by the scaling back of the government support for business under the new Energy Bills Discount Scheme, which will run from April this year until the end of March 2024. Meanwhile slower economic growth is expected to result in some rise in unemployment rates during 2023, and with the spectre of further increases in public borrowing partly related to continued support in respect of energy bills. The net result of these factors, combined with the ongoing problems in Ukraine means that business confidence is at best stuttering in the first quarter of 2023.

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.

- The global economy continued to face major challenges in 2022 Q3 with impacts from the conflict in Ukraine, inflationary pressures, and the fall-out from China's response to the Covid-19 pandemic.
- Revised UK GDP growth estimates show that the economy contracted by 0.3% in the quarter to 2022 Q3.
- The UK economy continues to face tight labour market conditions with relatively high levels of vacancies despite these falling in the three months to November 2022. The unemployment rate in Wales remained below that of the UK in the three months to October 2022 (3.6%, compared to 3.7% for the UK).
- The outlook for the UK economy remains sluggish characterised by inflationary pressures, the cost-of-living crisis, and industrial action.

## Challenging global economic prospects at the end of 2022 and into 2023

The IMF World Economic Outlook published in October 2022 noted that the global economy was facing strong challenges arising from three main sources<sup>1</sup>. Firstly, the impacts of the Russian invasion of Ukraine where, besides the human costs of the conflict, an energy crisis had been triggered in Europe and food prices pushed up on the world markets-creating particular hardships for low-income countries. Secondly, persistent and broadening inflationary pressures resulted in a tightening of global monetary and financial conditions with higher real interest rates that are expected to work through the economy, weighing down demand and suppressing inflation. Thirdly, in China, the impacts of lockdowns under the nation's Zero-Covid policy have affected global supply chains and hampered trade activity.

Given these challenges, the IMF forecast in October for world gross domestic product (GDP) was for growth to slow from 6.0% in 2021 to 3.2% in 2022. The IMF forecast for global GDP growth in 2023 was 2.7%, this being 0.2 of a percentage point lower than that forecast in the July 2022 World Economic Outlook. The November 2022 OECD Economic Outlook report predicted global GDP growth of 2.2% for 2023<sup>2</sup>.

A cost-of-living crisis has arisen in many economies during the latter half of 2022 with rising inflation resulting in stagnant or falling real wages. The OECD forecasted an 8.0% annual increase in consumer price inflation (CPI) in the USA in 2022 (falling to 3.9% in 2023), an increase of 8.9% in the UK in 2022 (decreasing to 6.6% in 2023), and an increase of 8.3% in the

<sup>1</sup> <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

<sup>2</sup> <https://www.oecd-ilibrary.org/sites/f6da2159-en/index.html?itemld=/content/publication/f6da2159-en>

Euro area for 2022 (with a prediction of 6.8% for 2023)<sup>3</sup>. The Bank of England noted that twelve-month CPI in the UK fell from 11.1% in October 2022 to 10.7% in November 2022<sup>4</sup>, with the

expectation that it will continue to fall gradually in 2023 Q1 as previous energy and goods price increases drop out of the annual comparison.

## Revised UK GDP growth estimates show that the economy shrank in the quarter to 2022 Q3

In the third quarter of 2022 UK GDP is now estimated to have shrunk by 0.3%<sup>5</sup>. This figure has been revised down from the previous estimate of a contraction of 0.2%. This adjustment mainly reflects revisions to estimates of production and construction output, with the sectors having experienced a declining trend in quarterly output since the beginning of 2022. Taking these revisions into account the data now shows that the level of UK GDP in 2022 Q3 was 0.8% below the pre-Covid level (2019 Q4), compared to the previous estimate that the level of UK GDP was 0.4% below.

Monthly estimates<sup>6</sup> show that GDP grew by 0.1% in November 2022. This positive GDP

growth was largely unexpected with many forecasters predicting a decline. During November, output in the construction sector was flat, whilst production output declined. However, output growth in the services sector resulted in a positive overall growth rate for GDP in November. The ONS linked some of this growth to 'food and beverage service activities in a month where the FIFA World Cup started.' Monthly GDP growth was 0.5% in October, with GDP growth falling by 0.8% in September. The latter is partly explained by the additional bank holiday in September 2022 to mark the occasion of the State Funeral of Her Majesty Queen Elizabeth II, where some businesses either closed or operated for shorter hours on this day.

## UK business investment fell in 2022 Q3

After an increase of 3.7% in 2022 Q2, UK business investment fell by 2.5% in 2022 Q3<sup>7</sup>, with the figure being revised down from the provisional estimate of -0.5%. Business investment in 2022 Q3 was 8.1% below where it was in pre-Covid 19 (October to December 2019). This represented a revision upwards from

the provisional estimate of -8.4%. In December 2022 the Bank of England noted that surveys of investment intentions had continued to weaken in recent months<sup>8</sup>, following a period of greater strength after the worst of the pandemic, particularly in capital spending.

<sup>3</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>4</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/december-2022>

<sup>5</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/julytoseptember2022>

<sup>6</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/november2022>

<sup>7</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/julytoseptember2022revisedresults>

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

## Job vacancies continue to decrease in the UK

In the period September to November 2022 the number of UK job vacancies was 1,187,000, decreasing 65,000 from the previous quarter.<sup>9</sup> This represented the fifth consecutive quarterly fall since May to July 2022. These decreases in the number of vacancies suggest continued uncertainty across the UK economy. However, this should be seen in the context that from September to November 2022, the total number of vacancies was 391,000 above the pre-pandemic January to March 2020 level. The relatively high number of vacancies, combined with low levels of unemployment highlight tight labour market conditions in the UK economy.

Early estimates from Pay as You Earn Real Time Information<sup>10</sup> shows a rise in the number of payroll employees in the UK for November 2022 to 29.9m, an increase of 777,000 employees (or 2.7%) over the figure for November 2021, and a rise of 932,000 (or 3.2%) since February 2020. Payrolled employment increased by 107,000 employees (0.4%) in the month to November 2022.

In the year to November 2022 there was an increase in payroll employees in all the main sectors of the UK economy except one – the outlier being wholesale and retail where there was a decline of 0.4% or 16,000 employees. The percentage increases in payroll employees over the year were uneven by sector, being lowest in construction (0.9% or 12,000 employees), and highest in arts, entertainment and recreation (8.4% or 47,000 employees). The health and social work sector experienced the largest increase in payroll employees in the year to November 2022 (a rise of 123,000 employees or 3.1%).

The number of payroll employees in Wales grew by over 32,000 in the year to November 2022 to just over 1.3m.<sup>11</sup> The UK regional data on payroll employees by sector is updated less frequently, but the data to October 2022 shows that the increase in payroll employees over the year was highest in arts, entertainment and recreation (10% or 2,200 employees), while the only sector to experience a decline of employees was wholesale and retail (-1.1% or 2,000 employees).

<sup>9</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/december2022>

<sup>10</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/december2022>

<sup>11</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>



## UK unemployment relatively stable in the three-month period to October 2022

The UK unemployment rate for the three-month period to October 2022 was an estimated 3.7%<sup>12</sup>, 0.1 of a percentage point higher than the previous three-month period, and 0.2 points below the pre-Covid level. The highest UK regional unemployment rates in the three-months to October 2022 were in the West Midlands (4.9%), North East (4.7%) and London (4.5%), while the lowest rates were in the South West (2.0%), the East (2.7%) and Northern Ireland (also 2.7%). In the same period, the unemployment rate in Wales was estimated at 3.6%, a 0.4 point rise from the previous three-month period.

The UK redundancy rate for the three-month period to October 2022 increased on the previous three-month period<sup>13</sup>. According to the Labour Force Survey, the UK redundancy rate increased to 3.1 per 1,000 employees in the three-month period to October, rising from 2.3 per 1,000 employees in the three-month period

to the end of July 2022. The UK redundancy rate saw a peak of 14.4 per 1,000 employees in the three months to November 2020, and a historic low of 1.8 per 1,000 employees in the three-month period to May 2022.

The redundancy rate for Wales for the three-month period to October was 2.9 per 1,000 employees<sup>14</sup>, the same as the previously latest released figure for the three months to end of March 2022, with other estimates for Wales since that time suppressed on disclosure grounds by the ONS. The redundancy rate in Wales in the three-month period to October 2022 was higher than Scotland (2.3 per 1,000 employees), and Northern Ireland (2.5 per 1,000 employees), but below England (3.2 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

During the year to November 2022, the UK unemployment-related benefit claimant count fell by 0.36m to 1.52m people<sup>15</sup>. In Wales, just over 62,200 people claimed unemployment-related benefits (equal to 3.2% of the working age population, compared with a figure of 3.6% for the UK) in November 2022. According to the data for November 2022, the Welsh unitary authority areas with the highest proportion of working age population claiming unemployment-

related benefits were Newport (4.4%), Blaenau Gwent (4.0%), Merthyr Tydfil (3.8%), Cardiff (3.7%) and Denbighshire (also 3.7%), and those with the lowest proportions were Monmouthshire (2.2%), Powys (2.4%), Gwynedd (2.6%), and Ceredigion (also 2.6%). The proportion of the working age population claiming unemployment-related benefits in November 2022 continued to decline in all local authority areas of Wales.

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

<sup>13</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

<sup>14</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

<sup>15</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental>

## Economic inactivity decreases in the UK

There was a 0.2 percentage point decrease in the UK inactivity rate in the quarter to 21.5% in August to October 2022. The ONS Labour Market Overview, UK: December 2022<sup>16</sup>, noted that the main driver of this decrease were in those aged 50 to 64 years. The decrease in

economic inactivity in the latest three-month period was mainly due to those inactive being retired. The economic inactivity rate in Wales decreased 0.5 of a percentage point on the quarter to 25.1% in August to October 2022<sup>17</sup>.

## GDP growth in Wales flat in 2022 Q1

The quarterly (experimental) GDP estimates show that England, along with the devolved administrations of Scotland and Northern Ireland, experienced positive quarterly GDP growth in 2022 Q1. The Welsh economy had flat quarterly GDP growth at 0%, compared

with 0.9% in Scotland, 0.8% in England and 0.6% in Northern Ireland<sup>18</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.

<sup>16</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2022>

<sup>17</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

<sup>18</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/januarytomarch2022>

## The value of exports from Wales increased in the year to 2022 Q3

For the period to 2022 Q3 the trade in goods data for the UK regions show that there had been an increase in the value of exports for all UK countries in the twelve months ending September 2022 compared with the previous twelve months<sup>19</sup>. In Wales the value of exports increased by 36.6% to £19.5 billion over the year to September 2022 (compared with an increase of 27.2% in Scotland, 15.3% in England, and 11.0% in Northern Ireland). The value of imports grew in all UK countries in the year to September 2022 compared with the previous twelve months. In Wales the value of imports increased by 49.3% to £22.8 billion over this period (compared to increases of 53.9% in Scotland, 28.7% in England, and 20.1% in Northern Ireland).

In comparison with the pre-pandemic year ending September 2019, the value of goods exported from Wales was up £1.7 billion (or 9.5%) with this value recovering to above pre-pandemic levels<sup>20,21</sup>. As with exports, the value of goods imports for Wales had recovered to pre-pandemic levels (up £4.4 billion, or 23.8%, when comparing year ending September 2019 with year ending September 2022)<sup>22,23</sup>. Caution is needed when interpreting data on trade values. Data are typically published in current or nominal prices which means they have not been adjusted to remove the effects of inflation. For example, increases in the trade values of petroleum, petroleum products and related materials (SITC 33<sup>24</sup>) have been particularly important in driving the overall growth of trade values for Wales.

## UK Autumn Statement sets out path seeking stability and growth

In November 2022, following the reversal of almost all of the measures in the UK Growth Plan 2022 due to a loss of confidence in the UK economy by the financial markets, the new Chancellor of the Exchequer presented the Autumn Statement to Parliament<sup>25</sup>. This revealed policies for taxation and spending with the aim of repairing UK public finances and reducing national debt, and included plans for: increasing taxes for those on higher incomes (reducing the income tax additional rate threshold from £150,000 to £125,140 from 6 April 2023<sup>26</sup>); increasing the Energy Profits Levy by 10 percentage points

to 35% on energy sector businesses making extraordinary profits; and supporting businesses confronted with inflationary pressures – here announcing a package of targeted business rate support over the next five years.

In January 2023 the UK government announced a scale back in support to businesses relating to energy bills. The new Energy Bill Discount Scheme for businesses, charities and the public sector will run from April 2023, when the current Energy Bill Relief Scheme will end. Eligible organisations will receive discounts on high energy bills until the end of March 2024.

<sup>19</sup> <https://www.uktradeinfo.com/trade-data/regional/2022/uk-regional-trade-in-goods-statistics-third-quarter-2022>

<sup>20</sup> [https://www.uktradeinfo.com/media/o2mdj5d/rts\\_q3\\_2022.xlsx](https://www.uktradeinfo.com/media/o2mdj5d/rts_q3_2022.xlsx)

<sup>21</sup> <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Exports/valueofwelshexports-by-quarter-product>

<sup>22</sup> [https://www.uktradeinfo.com/media/o2mdj5d/rts\\_q3\\_2022.xlsx](https://www.uktradeinfo.com/media/o2mdj5d/rts_q3_2022.xlsx)

<sup>23</sup> [https://www.uktradeinfo.com/media/bixbdlc3/rts\\_q1\\_2021.xlsx](https://www.uktradeinfo.com/media/bixbdlc3/rts_q1_2021.xlsx)

<sup>24</sup> <https://unstats.un.org/unsd/trade/sitcrev4.htm>

<sup>25</sup> <https://www.gov.uk/government/publications/autumn-statement-2022-documents>

<sup>26</sup> <https://lordslibrary.parliament.uk/autumn-statement-2022-key-announcements-and-analysis/>

## Industrial unrest in the UK further fuelled by cost-of-living crisis

With inflationary pressures gaining strength during the latter part of 2022, and many workers facing a reduction in their real wages, the UK saw an increase in industrial unrest. Data from the ONS indicates that there were

417,000 working days lost in the UK because of labour disputes in October 2022<sup>27</sup>. This was the highest since November 2011. Workers in a number of sectors, including transport, health, and education, were involved in strike action.

## UK and Welsh economy forecasts

The December HM Treasury Forecasts for the UK Economy<sup>28</sup> publication contained a comparison of independent forecasts received between the 1st and the 16th of December 2022. The average forecast for UK GDP growth in 2022 was 4.4%, an upgrade from the 4.2% projected in the November 2022 publication. The average forecast for GDP growth for 2023 has been upgraded slightly compared with forecasts made in the previous month, from -0.9% in the November forecast to -0.8% in the December forecast.

The IMF's October 2022 World Economic Outlook<sup>29</sup> forecasts for UK GDP growth have been upgraded to 3.6% for 2022 but downgraded to 0.3% for 2023 (from 3.2% and 0.5% respectively in the July 2022 publication).

In November, the Bank of England's projection for UK GDP growth in 2023 was -1.9%, a

downgrade from the -1.2% forecast in August<sup>30</sup>. Here, high energy prices and tighter financial conditions impacting on spending were given as major contributory factors. The Bank of England projected four-quarter GDP growth to pick up to around 0.7% by 2025 Q4.

In their Autumn UK Economic Outlook<sup>31</sup>, published in November 2022, the National Institute of Economic and Social Research (NIESR) upgraded its UK GDP growth forecast for 2023 to 0.8% from 0.5%, with the expectation of 1.7% growth in 2024. However, the NIESR warned that the risk of a UK recession remained high. The NIESR Autumn Economic Outlook noted that Welsh economic output had reached its pre-Covid level and was expected to grow at the UK rate, but that challenges to growth remained in such factors as relatively high inactivity rates and lagging productivity levels.

<sup>27</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2022>

<sup>28</sup> <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-december-2022>

<sup>29</sup> <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

<sup>30</sup> <https://www.bankofengland.co.uk/monetary-policy-report/2022/november-2022>

<sup>31</sup> <https://www.niesr.ac.uk/publications/filling-fiscal-gap-may-extend-low-growth-trap?type=ukeconomic-outlook>

- The FSB UK Small Business Confidence Index plummeted to a new low in 2022Q3.
- The number of both business births and deaths in Wales decreased for two consecutive quarters.
- More than 70% of SMEs reported that the mini budget of September 2022 had failed to boost their confidence.

### Small business confidence decreased over two consecutive quarters

The UK small business confidence index<sup>32</sup> declined further in 2022Q3. Small business confidence plummeted to its lowest levels outside of the Covid-19 lockdowns. Confidence decreased from -24.7 in 2022Q2 to -35.9 in 2022Q3<sup>33</sup>. This marked a second consecutive quarterly fall. It was also the second consecutive quarter in which the Index has been in negative territory across all UK regions. The key factor affecting confidence has been the cost-of-living crisis, and with this then affecting consumer confidence and spending levels.

The confidence index decreased across most major UK industries in 2022Q3. The sharpest decrease was seen in Accommodation and food services, experiencing a fall of 38.4 points to -67.5 points. This is also a sector which has been hard hit by increases in the price of energy. Manufacturing as well as Wholesale and retail trade sectors also saw falling confidence levels. While most industries experienced a negative small business

index value in 2022Q3, Information and communication businesses were an exception, seeing a confidence index value of +12.2.

The net balance of small businesses reporting a second consecutive quarterly fall in revenue growth, suggests that more companies reported a decrease in revenue than reported an increase. On revenue growth, Wholesale and retail businesses recorded the weakest figures in 2022Q3, with a net balance of -26.0% seeing revenue growth over the quarter. By contrast, Information and communication saw a better performance with a net balance of 24.1% of these businesses reporting revenue growth in the third quarter.

The net balance of small businesses reporting an increase in operating costs stood at 85.4% in 2022Q3. Small firms continue to face strong cost pressures. The percentage of small firms reporting increases in costs was close to 90% in 2022Q3.

<sup>32</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>33</sup> FSB (2022). FSB voice of small business index, Quarter 3 2022. Available at: <https://www.fsb.org.uk/static/c7415e13-8742-472a-9f15f4afdc0c090a/7a6c35a3-89cd-4215-9af90f4d4b97d534/FSB-Small-Business-Index-Q3-2022.pdf>











The BVA BDRC SME Finance Monitor provides a 3-month rolling data analysis of SME trends to the end of September 2022<sup>36</sup>. The Monitor revealed an estimated 26% of UK SMEs reported growth in the 12 months to September 2022. The Monitor reported that 43% of UK SMEs had plans to grow in 2022Q3. Growth aspirations were strongest in those SMEs employing between 10-49 people. In this case 55% had plans to grow in 2022Q3. Some 58% of UK SMEs reported that they were in a 'good mood' about their businesses. This figure increased to 78% in those SMEs employing between 10-49 people. However, 62% of SMEs were cautious due to future uncertainty, lower than the 72% reported feeling cautious in 2021Q1. Some 31%

of UK SMEs saw the economic climate as a major obstacle, making the economic climate a more serious obstacle than political uncertainty and the cash flow impacts of late payments.

The ONS Business Impacts and Conditions Survey (BICS) for the period 28 November to 11 December 2022 (Wave 71)<sup>37</sup> revealed some of the impacts of inflationary pressures on businesses. An estimated 18% of UK businesses reported an increase in the prices of goods or services sold by their companies compared to November. A higher proportion of businesses (29.9%) expected that their prices would increase in January 2023. Energy prices and raw materials prices were the two major factors leading to increased prices.

### The influence of Mini budget

On 22 September 2022, the UK Government announced a "mini-budget" revealing changes in stamp duty, income tax and corporation tax. The measures announced in this budget led to a period of financial market instability and then with most of the changes revised or reversed. According to a survey conducted by Tide<sup>38</sup>, more

than 70% of SMEs said that the original mini budget had failed to improve their confidence. The survey also reported that deteriorating macroeconomic conditions had led to a high number of SMEs considering closure, particularly in Scotland and Wales where more than 30% of respondents had considering closing.

<sup>36</sup> <https://www.bva-bdrc.com/wp-content/uploads/2022/11/SME-Monthly-charts-Sept-FINAL.pdf>

<sup>37</sup> <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheeconomy>

<sup>38</sup> [https://www.altfi.com/article/9946\\_almost-25-of-smes-have-considered-closing-following-mini-budget](https://www.altfi.com/article/9946_almost-25-of-smes-have-considered-closing-following-mini-budget)

- The SME Finance Monitor reveals expected reductions in the supply of external finance.
- The default rate on UK loans to small businesses increased in 2022Q3.
- The cost of borrowing increased for small firms during 2022.

## The supply and demand of credit to SMEs in 2022Q3

The Bank of England Credit Conditions 2022 Q3 Survey<sup>39</sup> reported credit conditions for the three months to end-August 2022 (their Q3), and with these compared to the period between March and May (Q2). The Survey also reported expected changes in the three months to end-November 2022 (Q4). The survey revealed some stability in the overall availability of business credit for businesses of all sizes for Q3, but with the overall availability of credit expected to decline slightly in Q4. The sector-specific risks were reported as the major concern that reduces overall availability of business credit. The Survey also revealed that the demand for corporate lending from small and large companies slightly decreased in Q3, and that from medium-sized firms was largely unchanged in Q3. The demand for corporate lending was expected to be stable for medium and large companies and to increase slightly for small businesses in Q4.

The Survey also reported an increasing default rate on loans to SMEs. The default rate was expected to increase for businesses of all sizes in Q4. But lenders did not believe that their losses caused by default would strongly increase in 2022Q4. Moreover, future demand for credit card unsecured lending from small businesses declined in Q3.

The Bank of England Agents' Summary of business conditions<sup>40</sup> indicated that credit availability for businesses of all sizes had decreased in both 2022Q3 and Q4. Small and medium-sized businesses reported stronger credit constraints in 2022Q3. The Agents' summary also revealed that after six consecutive quarters of increases, businesses' investment intentions were unchanged in Q4.

<sup>39</sup> <https://www.bankofengland.co.uk/credit-conditions-survey/2022/2022-q2>

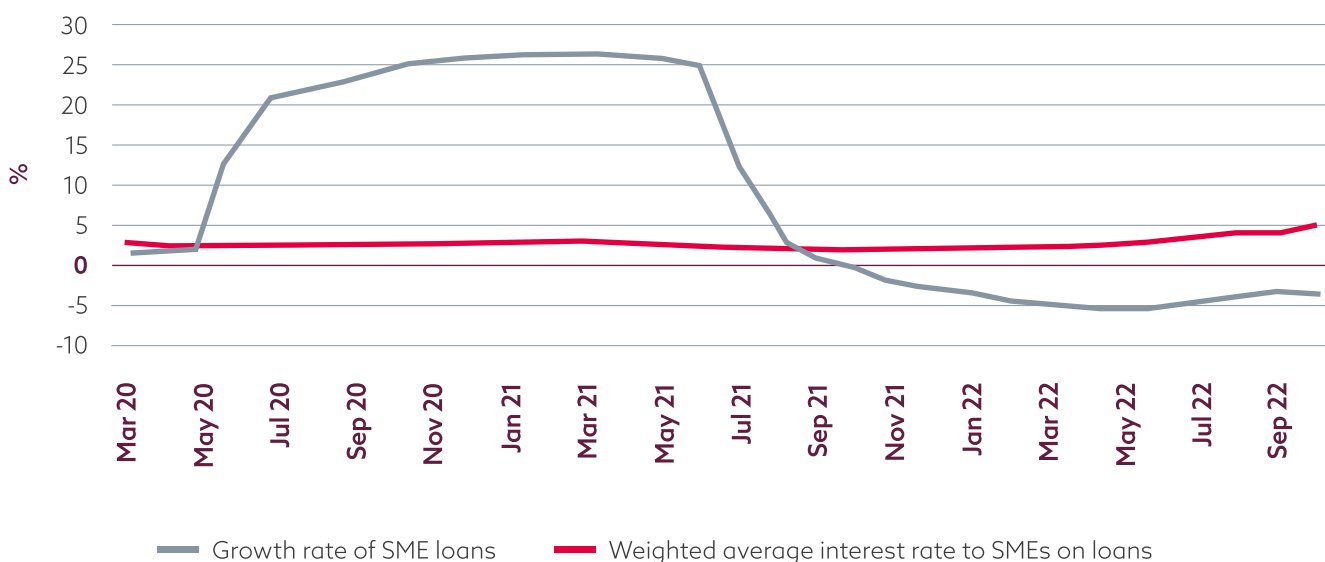
<sup>40</sup> <https://www.bankofengland.co.uk/agents-summary/2022/2022-q3>

## Steady increases in the cost of borrowing

Figure 5 depicts the monthly growth rate of SME loans and the interest rate on SME loans based on Bank of England data. The growth rate of SME loans<sup>41</sup> has remained in negative territory since September 2021 although with some slight growth since April 2022. Meanwhile, interest rates on SME loans have

increased for 12 consecutive months, from 2.65% in October 2021 to 4.89% in October 2022<sup>42</sup>. The most recent update of Bank Rate was on 15 December 2022 when the Bank of England raised the Bank Rate by 0.5 percentage points to 3.5%<sup>43</sup> and with further increases on the cost of business borrowing expected.

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



<sup>41</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>42</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.

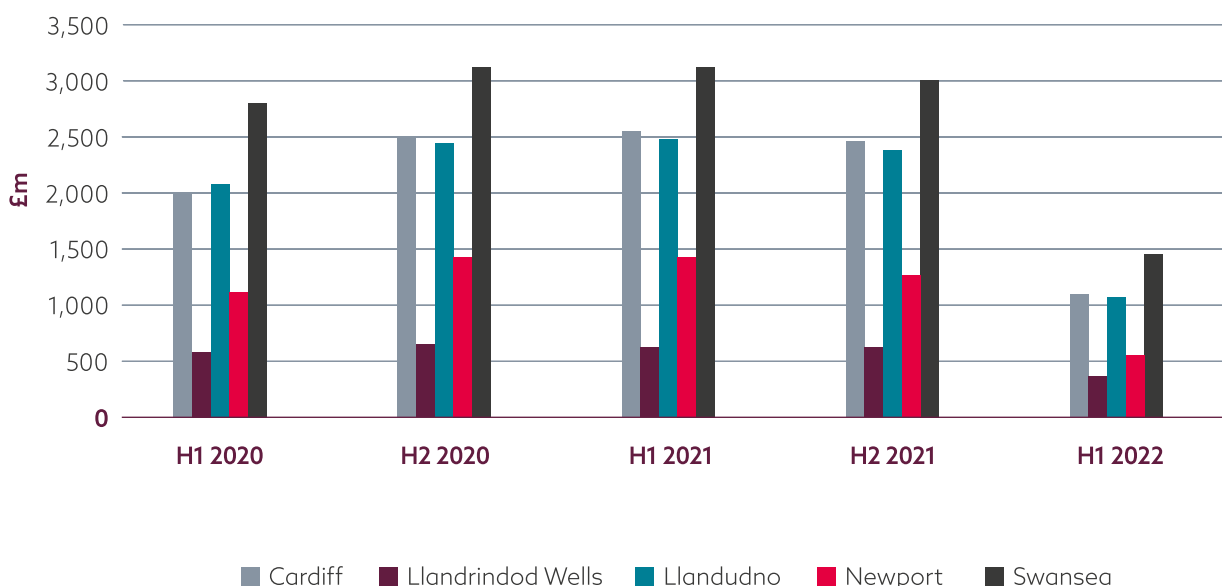
<sup>43</sup> <https://www.bankofengland.co.uk/knowledgebank/why-are-interest-rates-in-the-uk-going-up>

## A plummet of SME lending in Wales in the first half of 2022

After a slight decline in the second half of 2021, Wales saw SME lending plummet in the first half (H1) of 2022. Figure 6 depicts estimates of lending by the main Wales postcode areas from 2020H1 to 2022H1. Swansea received the largest amounts of SME lending during this period,

followed by Cardiff and Llandudno. All regions saw a slight decline in SME lending in 2021H2 and then a much more significant fall 2022H1. Total SME lending in Wales decreased to £4.59bn in the first half of 2022, lower than half of the volume in the second half year of the 2021 year (£9.78bn).

**Figure 6.**  
SME lending by Welsh postcode area (£m)



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

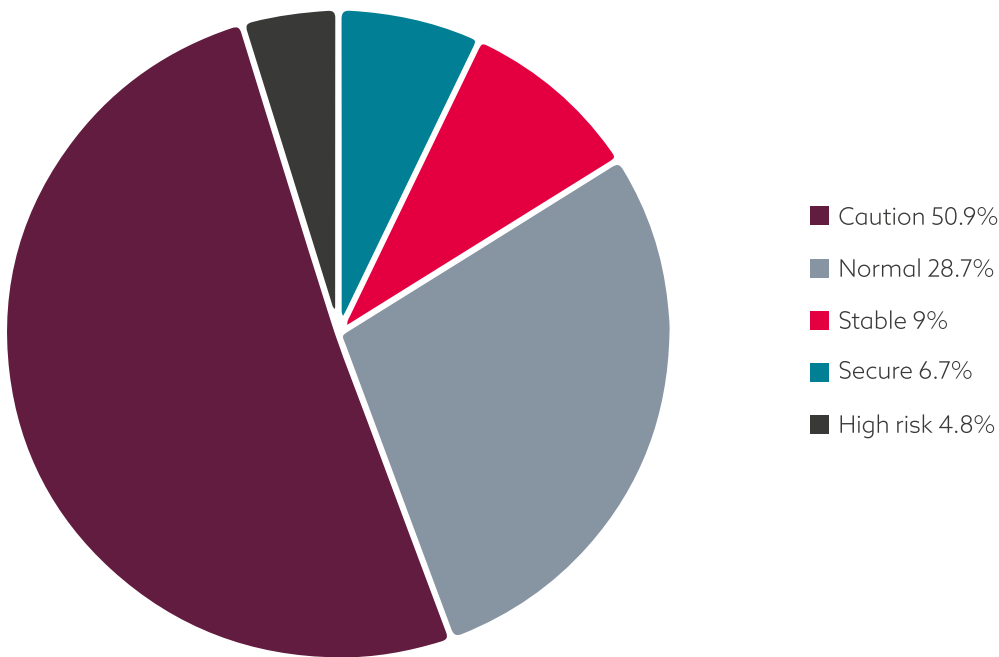
The series of Economic Intelligence Wales Quarterly reports provide an update on the credit risk associated with Welsh SMEs. In January 2023 the Bureau van Dijk FAME database was examined and credit score information was available for a total of 86,564 SME companies. Credit risk is defined here as either 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 86,489 identified Welsh SMEs, some 44,031 (50.9%) fell into the Caution category, and 4,149 (4.8%) were rated as High risk (see Figure 7). It is difficult with this data to compare one period with another. However, the previous Quarterly report revealed very similar proportions of Welsh SMEs in the Caution and High-Risk categories for the analysis carried out in September 2022.

**Figure 7.**

*Credit rating summary of Welsh SMEs: % of total in each risk category (n=86,489) January 2023*



Source: Derived from FAME database search, January 2023.

## The proportion of SMEs using external finance declined in 2022Q3

The SME Finance Monitor surveyed SMEs about the use of external finance. In terms of demand for finance, the percentage of SMEs that were using external finance decreased from 40% in 2022Q1 to 33% in 2022Q3. This figure was lowest for those domestic only SMEs (31%). The proportion of survey respondents who were permanent non-borrowers (i.e., firms not using external finance and showing no intention to do so) increased to a record high of 51% in 2022Q3. This is expected to have been related to difficulties and the costs of obtaining external finance.

An estimated 34% of SMEs had injected personal funds into their businesses in the year to 2022Q3, and 20% of them reported that they had to inject funds rather chose to do that. The proportion of SMEs that were happy to use finance to grow remained stable through 2022, varying from 31% in Q1 to 32% in Q3. A higher percentage of SMEs with employees (42%) were happy to use finance than those without employees (29%).

## Wales ranked the worst in equity investment volumes in 2021

The British Business Bank Small Business Equity Tracker 2022<sup>44</sup> reported that 2021 was an exceptional year for UK equity finance, with total investment reaching £18.1bn, almost double the 2020 investment levels. The growth of equity investment continued in 2022Q1 with £7.6bn invested, the largest quarterly amount recorded. Furthermore, deal sizes had increased sharply in 2021. The average deal size increased from £4.3m in 2020 to

£7.4m in 2021. Meanwhile, the overall median investment valuation in 2021 was £5.8m, a 29% increase in 2020. Most equity investments were concentrated in London, attracting 66% of the total investment value. Wales received 60 equity deals in 2021, a 22% decrease on 2020. However, the total investment value increased by 44% to £83m. Wales ranked lowest among all 12 UK regions in total investment value in 2021.

<sup>44</sup> <https://www.british-business-bank.co.uk/wp-content/uploads/2022/06/small-business-equity-tracker-2022.pdf>

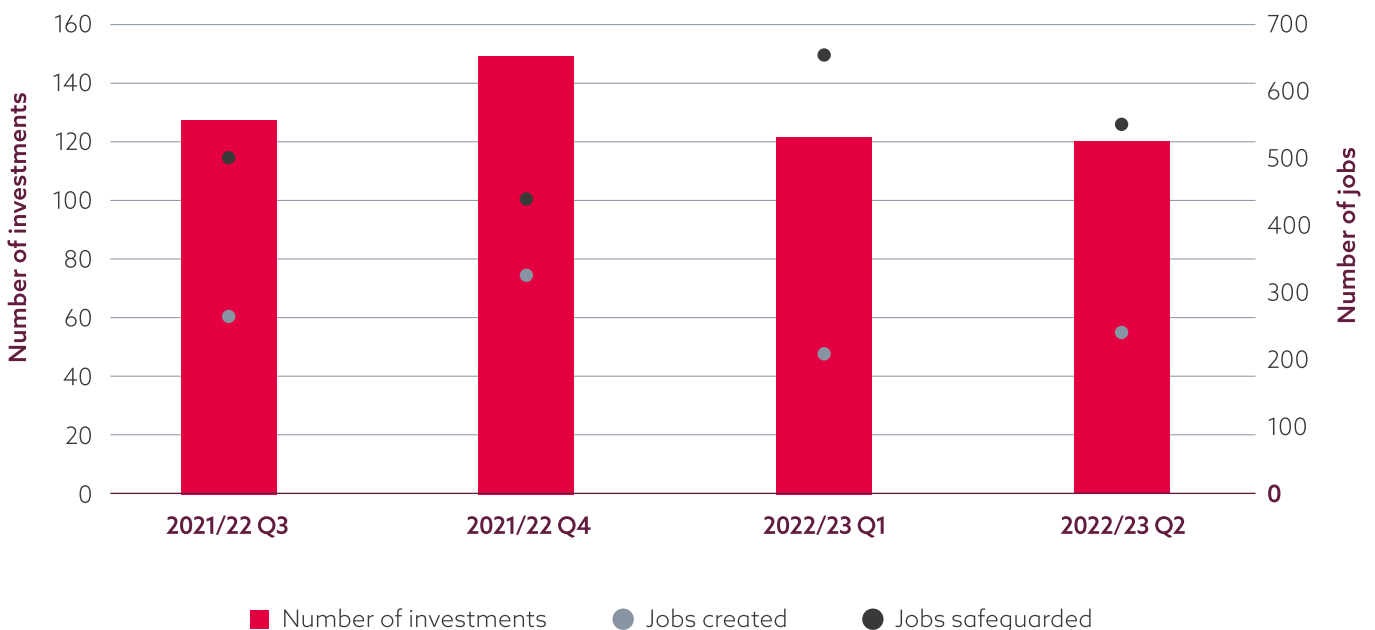
- In 2022/23 Q2 the Development Bank of Wales made 121 investments with a value of £31m.
- Investments made in 2022/23 Q2 created or safeguarded 870 jobs and supported 23 start-ups.
- The construction sector secured the highest value of investments in 2022/23 Q2, however the highest number of safeguarded jobs were in professional, scientific and technical activities.
- The highest number of new jobs created from Development Bank investments in 2022/23 Q2 were in accommodation and food services activities.

## In the second quarter of 2022/23, the Development Bank of Wales made a total of 121 investments, connected with 322 new jobs, and 548 safeguarded jobs

Figure 8 shows a very slight decline in the number of investments in the second quarter of the 2022/23 financial year, compared with the first quarter. The number of investments in 2022/23 Q2 was also lower than the same quarter in the previous financial year (132 investments in 2021/22 Q2). Whilst the

number of safeguarded jobs was below the recent high in 2022/23 Q1, this is still above the levels in the final two quarters of 2021/22. In addition, the number of new jobs created increased to 322 in 2022/23 Q2 compared with 213 jobs created in the previous quarter.

**Figure 8.**  
Number of investments and jobs created and safeguarded, 2021/22 Q3 – 2022/23 Q2





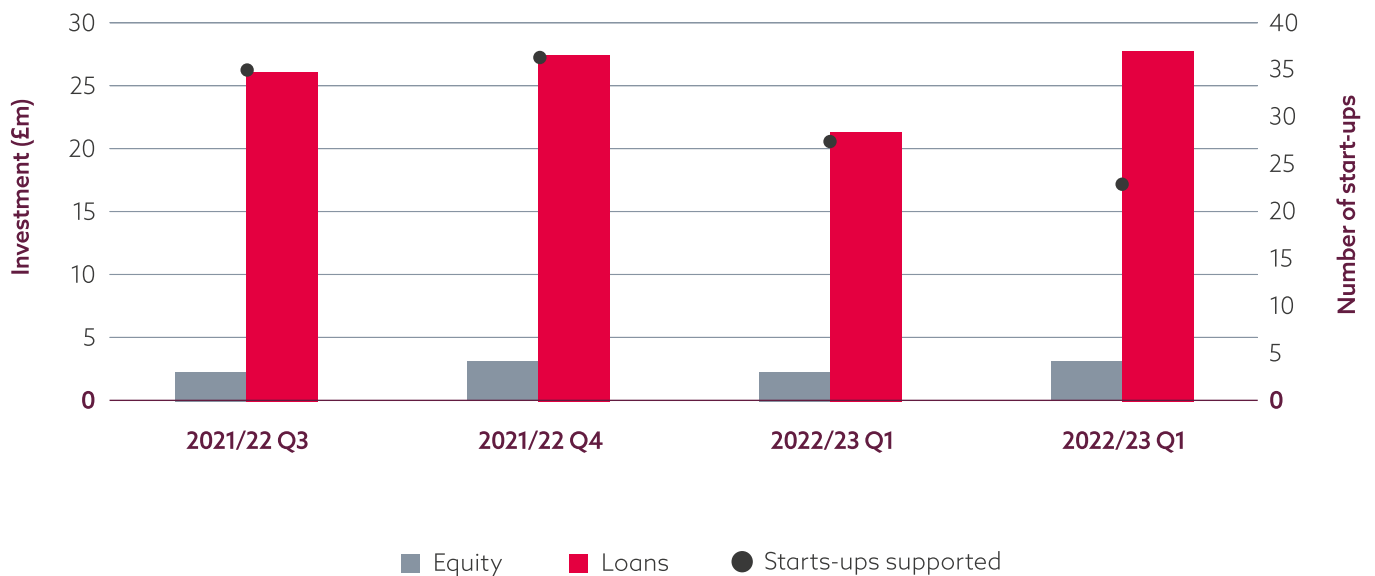
## The total value of investments made in 2022/23Q2 was £31m

Whilst there was a slight decline in the number of investments in 2022/23 Q2, the value of investments was above that of the previous three quarters. The average value of each investment in 2022/23 Q2 was almost £257,000, compared with average values of less than £200,000 in 2021/22 Q4, and 2022/23 Q1, and just below £220,000 in 2021/22 Q3. The increase in the value of investments in 2022/23 Q2 was in both loan and equity investments (Figure 9). New loan investment was almost

£28m in 2022/23 Q2, up from almost £22m in the previous quarter. The value of equity investments made in 2022/23 Q2 was over £3m, compared with almost £2m in 2022/23 Q1.

Figure 9 also shows the number of start-ups supported in each quarter. There is also some variation in these numbers over time with 23 start-ups supported in 2022/23 Q2. During the last four quarters, 122 start-ups have been supported by Development Bank funds.

**Figure 9.**  
Value of investments by type (£m) and number of start-ups supported 2021/22Q3 – 2022/23Q2



## South east Wales received the highest levels of investment funds in 2022/23 Q2

The south east region of Wales has the highest business population, and received the largest share of Development Bank investments by value in 2022/23 Q2. The value of investments increased in mid and south west Wales, and in south east Wales, but fell in north Wales compared with the previous quarter (Figure 10).

The investments made by the Development Bank in 2022/23 Q2 created or safeguarded the highest number of jobs in mid and south west Wales at over 500 jobs, compared with just below 300 jobs south east Wales, and around 60 jobs in north Wales. 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.

**Figure 10.**  
*Investment and jobs created and safeguarded by location, 2022/23 Q1 and Q2*



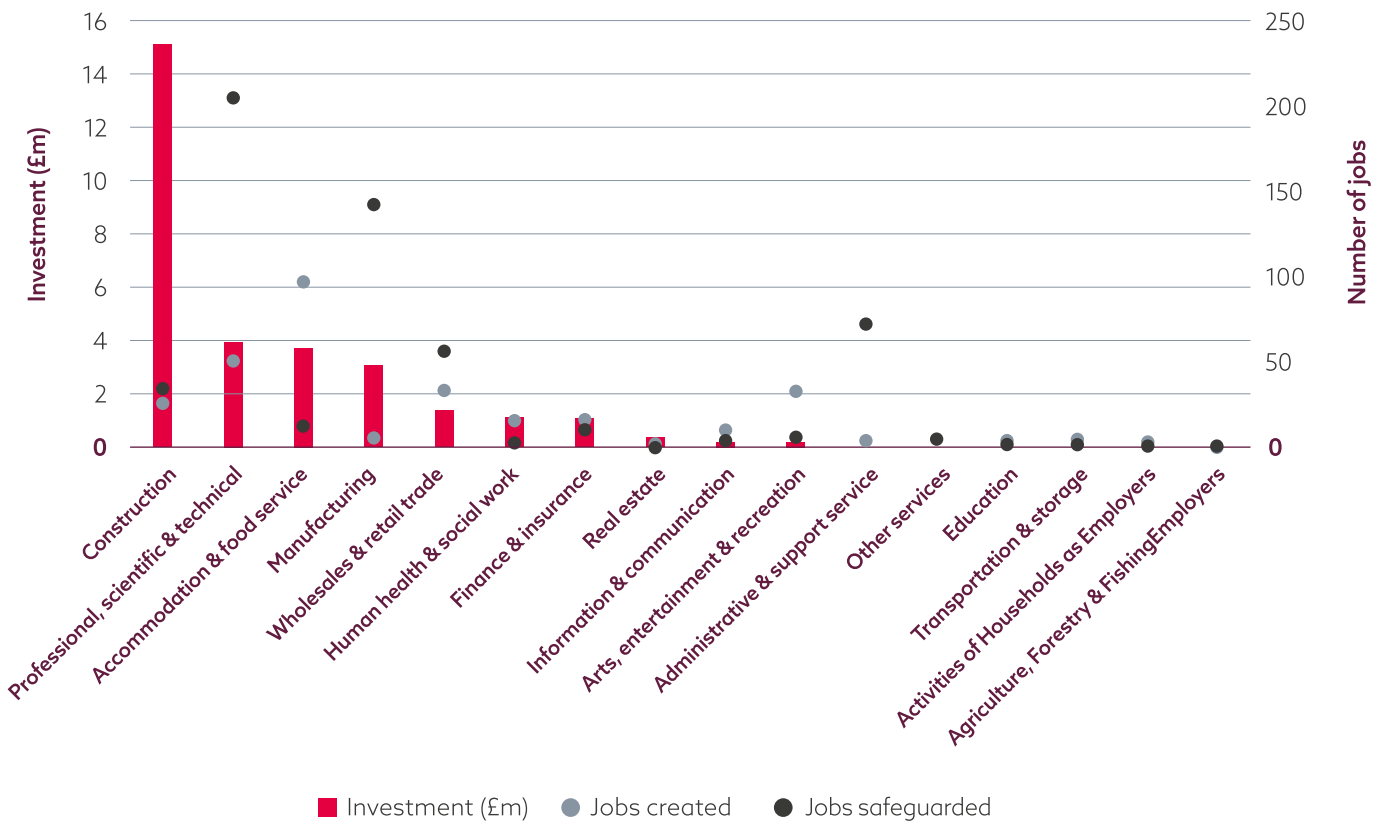
## In 2022/23 Q2 the highest total number of jobs created and safeguarded were in professional scientific and technical activities

Figure 11 shows the sector distribution of Development Bank investment funds and the related jobs created and safeguarded. The construction sector continues to secure high levels of funds by value, at over £15m, in 2022/23 Q2. As previously noted, 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.

The highest number of new jobs created from Development Bank investments made

in 2022/23 Q2 were in accommodation and food service activities (101 new jobs created from £3.7m of investment). This is welcome news for this sector during the important summer months, and a significant increase in the figures from the previous quarter (£1.2m of investment and 23 jobs created). In the Professional, scientific and technical activities sector, less than £4m of investment was successful in safeguarding 203 jobs and creating almost 50 jobs in 2022/23 Q2. There was also a relatively high number of jobs safeguarded in manufacturing in 2022/23 Q2.

**Figure 11.**  
*Investment and associated employment by industry 2022/23 Q2*



This Quarterly report suggests that 2023 will be a difficult year for Welsh SMEs. Indeed, some economic commentators are starting to use the term ‘permacrisis’<sup>45</sup> to describe regional, national and international events and extended periods of instability impacting businesses of all sizes, not just SMEs. Coming hard on the heels of Covid-19 and its public purse impacts has come strong inflationary pressure not seen for many decades. This has already led to labour market unrest and a raft of strike actions directly impacting the provision of public sector services but working to impact confidence in much of the private sector.

Unfortunately, interest rate increases and spending constraints required to combat inflationary pressure are expected to work to worsen consumer and then business confidence in Wales. There is plenty of evidence of this falling confidence in this Quarterly report, and with this indirectly impacting both the demand and supply side for business finance. While the spectre of a global recession in 2023 looms, there is the prospect that inflation rates may have peaked and with forecasters expecting a return to more normal inflationary levels at the latest by mid-2024. However, the current economic conditions have now begun to impact regional labour markets, which had been quite resilient in the period since March 2020. Unemployment rates have been creeping up at a UK level. In Wales unemployment crept up by 0.4 of a percentage point in the quarter to August to October 2022, and with a 1.7 percentage point reduction in Welsh employment rate over the same period.

For the Development Bank of Wales, the difficult economic circumstances work to affect not just the level of demand for finance, but the nature of that demand. For example, it will be interesting to see how far regional and national

economic conditions in 2023 work to constrain new business investment in Wales, and with this a key driver of demand for new finance. In terms of inward investment to Wales there is every indication that 2021/22 was a good year with job creation from foreign investment up by around 36%<sup>46</sup>. However, in terms of general business investment trends through the later part of last year are of more concern. For example, the ONS has reported that UK business investment in 2022Q3 was 8.4% below the level seen in 2019Q3, and that it fell by 0.5% between 2022Q2-Q3, and with business investment tending to fall behind whole economy investment (the latter including public investment).<sup>47</sup>

Other economic factors which will need to be closely monitored in 2023 are how far labour markets will be affected by the economic conditions. As a positive, continued construction activity in 2023 throughout Wales will provide a level of support to the economy. These activities include further improvements to the A465 around Hirwaun, as well as expected new builds at Atlantic Wharf and Central Quay in Cardiff, a new library in Swansea, and new leisure centre in Newport. There is also the prospect of new energy investments in both the Celtic Sea area, and in terms of onshore wind.

In the second quarter of 2022/23, the Development Bank of Wales made a total of 121 investments, connected with 322 new jobs, and 548 safeguarded jobs. The total value of investments made in 2022/23Q2 was £31m. The average value of each investment in 2022/23 Q2 was almost £257,000, compared with average values of less than £200,000 in 2021/22 Q4, and 2022/23Q1. During the last four quarters to 2022-23 Q2, 122 start-ups have been supported by Development Bank funds.

<sup>45</sup> <https://www.theguardian.com/culture/2022/nov/01/sums-up-2022-permacrisis-chosen-as-collins-word-of-the-year>

<sup>46</sup> [New Jobs Created in Wales Thanks to Foreign Investment \(businessnewswales.com\)](https://www.businessnewswales.com/news/new-jobs-created-in-wales-thanks-to-foreign-investment)

<sup>47</sup> [Business investment in the UK - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/economy/investment/bulletins/business-investment-in-the-uk)

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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**[bancdatblygu.cymru](http://bancdatblygu.cymru)**  
**[developmentbank.wales](http://developmentbank.wales)**

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