

# Economic Intelligence Wales

## *Quarterly report*

**May 2023**

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

## Economic context

This Quarterly report hints at **some improvement in business prospects**. Major forecasting groups expect a decrease in inflationary pressures during this year. The UK Office for Budget Responsibility reported in March 2023 that the economic and fiscal outlook had **"brightened somewhat"** and argued that the UK Budget **"lowers inflation this year and, more significantly, sustainably raises employment and output in the medium term"**.

The **IMF forecast in April 2023 is for world GDP to grow by 3.0% in 2024**.

The ONS reported that the twelve-month CPI in the UK fell from 10.5% in December 2022 to 10.1% in January 2023, **but then increased to 10.4% in February**.

ONS GDP quarterly national accounts indicate that in 2022 Q4 **UK GDP** is estimated to have **increased by 0.1%**.

UK business investment in 2022 Q4 fell by 0.2%, revised down from the provisional estimate of 4.8% growth, but was 10.8% above where it was in 2021 Q4. In 2022 Q4 business investment was 2.2% below the level it was in 2019 Q4, the quarter before the Covid-19 pandemic.

The number of UK job vacancies was 1,124,000 in the period December 2022 to February 2023, decreasing 51,000 from the previous quarter. Pay as You Earn Real Time Information shows a rise in the number of UK payroll employees for February 2023 to 30.0m, an increase of 2.3% over February 2022. **In Wales the number of payroll employees grew by over 24,000** to just over 1.3m in the year to February 2023.

For the three-month period to January 2023 the UK unemployment rate was an estimated 3.7%. According to the Labour Force Survey, the UK redundancy rate increased to 3.3 per

1,000 employees in the three-month period to January 2023. **The redundancy rate for Wales for the three-month period to November 2022, was 2.9 per 1,000 employees**.

The UK unemployment-related benefit claimant count fell by 0.23m to 1.54m people during the year to February 2023. In Wales, just over 63,200 people (3.5%) claimed unemployment-related benefits (compared with a figure of 3.7% for the UK) in February 2023.

Wales experienced negative quarter-on-quarter growth in GDP of 0.4% in 2022 Q2.

The IMF's April 2023 World Economic Outlook forecasts UK GDP growth of -0.3% in 2023.

## SME context

The **FSB small business confidence index decreased over the three quarters to 2022Q4**. Confidence decreased from -35.9 in 2022Q3 to -45.8 in 2022Q4.

**Wales saw a decrease in SME business confidence from -29 in 2022Q3 to -38 in 2022Q4 but did not see the falls witnessed in many other regions of the UK.**

**ONS business demography statistics reveal that both UK business births and deaths increased slightly in 2022Q4**. The number of business births increased from 67,390 to 69,445 and business deaths increased from 79,305 to 82,390.

The number of registered company insolvencies in England and Wales decreased from 2,120 to 1,783 during the year to February 2023. The majority of insolvencies were driven by creditors' voluntary liquidations. The supports put in place to help small firms through the Covid-19 crisis may have worked to delay some insolvencies.

# Summary

The BVA BDRC SME Finance Monitor for 2022Q4 revealed that an estimated **27% of all SMEs (excluding starts) reported growth in the past 12 months. Some 40% of surveyed SMEs expected to grow in the next year.** 73% of SMEs reported being impacted by increasing costs and with 41% considering increasing costs as a major future barrier.

The ONS Business Impacts and Conditions Survey (BICS) revealed that business conditions were challenging but that there were signals of improvements in terms of a smaller proportion of businesses reporting lower turnover, and a lower proportion of firms revealing higher prices for their purchases of goods and services.

## SME finance

The Bank of England Credit Conditions 2022 Q4 Survey reported that the overall supply of credit to businesses was unchanged. **The credit supply to businesses was expected to decrease slightly in 2023Q1.** The default rates on business lending were expected to increase for all sizes of businesses in 2023Q1.

The Bank of England Agents' Summary of business conditions (2023 Q1) indicated that the **demand for credit was subdued** because of higher borrowing costs and the uncertain economic outlook.

**The growth rate of SME loans has remained in negative territory since September 2021. Interest rates have increased for 16 consecutive months.**

The FAME database in April 2023 showed that the total percentage of firms in combined **Caution and High credit risk categories appears to have increased from 55.7% of the total in January, to an estimated 56.3%.**

**The SME Finance Monitor revealed that the proportion of businesses using external finance in 2022 Q4 was 36% compared to 43% across all business sizes and classes in 2021.**

In the 2022 Q4 Survey it was estimated that 48% of SMEs could be defined as a permanent non-borrower. An estimated 85% of SMEs in 2022 reported that their finance plans were based on what they could afford. Meanwhile, some 31% of SMEs were happy to borrow to grow.

## Development Bank of Wales activity

In 2022/23 Q3, **the Development Bank of Wales made a total of 128 investments, connected with 734 created and safeguarded jobs.** In the first three quarters of 2022/23 the Development Bank has made 371 investments, that total some £86.4m.

The third quarter saw a fall in the amount of loans from £28m to £21.8m but a **sharp increase in the amount of equity investment from £3.1m to £9.7m.** Total equity investment in the first three quarters of 2022/23 is £14.7m while total loans were £71.6m.

**South East Wales saw a sharp increase in investment in the third quarter of 2022/23.**

Investment in South East grew from £8.9m in Q1, to £13m in Q2 to £17.8m in Q3. The value of investments in North Wales has fallen from £8.8m in Q1 to £4.5m in Q3.

The construction sector received the highest levels of investment in 2022/23 Q3 at £12.5m or just under 40% of the total Q3 investment of £31.5m. The second largest sector in receipt of investment in Q3 was in Professional and Scientific services (£6.4m or 20% of the Q3 total and associated with 106 new and safeguarded jobs).

# Summary

The highest number of new jobs created from Development Bank investments made in 2022/23 Q3 were in financial and insurance.

In conclusion this Quarterly report revealed challenging conditions remaining for SMEs in Wales and with pressure on costs a persistent theme. The equity investment activity of the Development Bank has been strong over the period. **Businesses are expected to draw comfort from the expected reduction in inflationary pressure in the economy through this year, and hopefully better Welsh and UK growth prospects in 2024 and 2025.**

The small open Welsh economy continues to be impacted by both wider UK and global events, but with the period 2022/23 revealing some resilience of the local economy, particularly in terms of the strength of labour markets, and the maintenance of industry output. There remain real challenges for the development of the Welsh economy not least in terms of **improving productivity and growing business investment in research and development.**

This is the third 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 third quarter of the 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.

The Quarterly report published in February 2023 made the point that it had been developed during a difficult time for the UK economy. Elements of this Quarterly report hint at more optimism. Globally, economic conditions are still adversely impacted by the conflict in the Ukraine and with growing concerns about deteriorating relationships between China and the USA as a result of Taiwan's move towards greater independence. Critically, however, most of the major national and international forecasting groups are expecting a sustained decrease in inflationary pressures during this year. While this will not take away from the seriousness of the cost-of-living crisis, there is the prospect of improved business confidence into late 2023 and into 2024.

Moreover, the setbacks experienced by the banking sector (i.e. SVB and Credit Suisse) appear not to have led to any larger scale financial market impacts at the time of writing. For the UK specifically, the Office for Budget Responsibility reported in March 2023 that the economic and fiscal outlook had "brightened somewhat" since their previous analysis in November 2022 with a "shallower" near term downturn, while arguing that the UK Budget "lowers inflation this year and, more significantly, sustainably raises employment and output in the medium term".

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.

<sup>1</sup> See [Economic and fiscal outlook - March 2023 - Office for Budget Responsibility \(obr.uk\)](https://obr.uk/economic-and-fiscal-outlook-march-2023/)

- Inflationary pressures and the conflict in Ukraine remained crucial challenges to the global economy in 2023 Q1. The reopening of the Chinese economy post Covid-19 pandemic showed grounds for optimism, although with concerns about poorer China-Taiwan relations.
- Particular concerns over the global financial system, faced with high interest rates, were expressed following fall-out after the closure of the SVB bank, and the take-over of Credit Suisse.
- Revised UK GDP growth estimates show that the economy expanded by 0.1% in the quarter to 2022 Q4.
- Tight UK labour market conditions continue, with relatively high levels of vacancies despite the level falling in the three months to February 2023. The unemployment rate in Wales remained below that of the UK as a whole in the three months to January 2023 (3.5%, compared to 3.7% for the UK).

## Mixed prospects for the global economy in 2023

The IMF World Economic Outlook observed that increases in central bank interest rates to target inflationary pressures, along with the conflict in Ukraine, continued to impact on the world economy.<sup>2</sup> On a more positive note, the IMF report noted that, after suffering a rapid spread in Covid-19 during 2022, the Chinese economy reopened in early 2023 helping to set the conditions for a faster-than-expected resurgence in the economy.

Taking these factors into consideration, the IMF forecast in April 2023 for world Gross Domestic Product (GDP) was for growth to fall from 3.4% in 2022 to 2.8% in 2023, this being a 0.1 percentage point higher for 2023 than forecast in the October 2022 World Economic Outlook<sup>3</sup>. The IMF forecast in April for world GDP growth

in 2024 was 3.0%. The March OECD Economic Outlook Interim Report predicted global GDP growth of 2.6% for 2023. Overarching these forecasts is a strong expectation (see below) that inflation rates will fall off sharply during the later part of this year. One slight caveat here is that energy prices could be further maintained by the early April decision of some of the main oil producing nations to cut output to around 1.15m barrels a day. This action is purported to be supporting market stability.

The OECD Economic Outlook March 2023, revealed how the global easing of energy and food prices had begun to impact the world economy with declining headline inflation, noting that the former partly reflected a relatively warm winter in Europe, and related

<sup>2</sup> <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023#:~:text=The%20baseline%20forecast%20is%20for,to%201.3%20percent%20in%202023>

<sup>3</sup> <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

<sup>4</sup> <https://www.oecd.org/economic-outlook/march-2023/>

low energy consumption<sup>4</sup>. The OECD forecasts a 3.9% annual increase in consumer price inflation (CPI) in the USA in 2023 (falling to 2.5% in 2024), an increase of 6.7% in the UK in 2023 (decreasing to 2.8% in 2024), and an increase of 6.2% in the Euro area for 2023 (with a prediction of 3.0% for 2024).

The ONS<sup>5</sup> reported that the twelve-month CPI in the UK fell from 10.5% in December 2022 to 10.1% in January 2023, but then increased to 10.4% in February. This was 0.6

of a percentage point higher than predicted in the Bank of England's February Report<sup>6</sup> and was attributed to food and core goods price inflation being significantly stronger than expected. The March Monetary Policy Summary indicated that CPI inflation in the UK is still expected to fall significantly in 2023 Q2, due to falls in wholesale energy prices and news in the Spring Budget that the Energy Price Guarantee (EPG) would be maintained at £2,500 for three further months from April 2023.

## Banking sector turmoil in 2023 Q1

On March 10th 2023, Silicon Valley Bank (SVB), a US company specializing in lending to start-up firms, was shut down by regulators. SVB's depositors had begun withdrawing their funds when it became apparent that the bank was harbouring substantial losses on held-to-maturity securities (such as US Government bonds), due to increasing interest rates. It was reported that rising interest rates had also made it more difficult for its customers to raise money either through share sales or private fundraising, leading to increasing deposit withdrawals by clients<sup>7</sup>. With fears of repercussions for the UK arm of SVB, a rescue deal brokered by the government and the Bank of England saw UK clearing bank HSBC buying SVB UK for £1.

The experience of SVB and Silvergate (another US bank that announced a wind down of its operations) raised concerns over the fragility of the global financial system, the weakness of regulatory structures, and the prospect of further runs on other banks as stock markets

fell sharply.<sup>8</sup> These fears were further intensified when shares in Switzerland's second largest lender, Credit Suisse, tumbled as confidence faded in the loss-making company. This latter crisis necessitated an emergency rescue deal to restore confidence in financial markets, with Credit Suisse being taken over by UBS<sup>9</sup>, a competitor Swiss bank. Aiming to prevent further financial unrest, six central banks (including the Bank of England, the European Central Bank, and the US Federal Reserve) announced they would co-ordinate action to keep credit flowing.<sup>10</sup> A concern linked to failures such as SVB is that commercial banks could tighten loan conditions to small business customers. The banking failures also raised concerns in the UK because of potential contagion effects on business solvencies. More than 250 tech firm chief executives asked for government intervention. The Bank of England has responded that the UK banking system was "well capitalised and funded and remains safe and sound".<sup>11</sup>

<sup>5</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest>

<sup>6</sup> <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/march-2023>

<sup>7</sup> <https://www.bbc.co.uk/news/business-64937251>

<sup>8</sup> <https://www.thestreet.com/technology/three-u-s-banks-down-one-more-in-focus-does-it-end-here>

<sup>9</sup> <https://www.bbc.co.uk/news/business-65007871>

<sup>10</sup> <https://www.bbc.co.uk/news/business-65010255>

<sup>11</sup> <https://www.bbc.co.uk/news/business-65007871>



## Revised UK GDP growth estimates show that the economy expanded in the quarter to 2022 Q4

Figures from the ONS GDP quarterly national accounts indicated that 2022 Q4 UK GDP was estimated to have increased by 0.1%.<sup>12</sup> This figure has been revised up from the previous estimate of no growth and follows a revised fall of 0.1% in 2022 Q3, previously estimated as a 0.2% decrease. By sector, output in services in 2022 Q4 was revised up to a 0.1% increase (from an initial no growth estimate); output in

production was flat (revised up from an initial decrease of 0.2%); and output in construction rose by 1.3% following a first estimate of 0.3% growth. Taking these revisions into account now shows that the level of UK GDP in 2022 Q4 was 0.6% below the pre-Covid level (2019 Q4), compared to the previous estimate that the level of UK GDP was 0.8% below.

## UK business investment fell in 2022 Q4

UK business investment in 2022 Q4 fell by 0.2%, revised down from the provisional estimate of 4.8% growth, but was 10.8% above where it was in 2021 Q4.<sup>13</sup> The revision downward was mainly

attributed to a decline in investment in the other machinery category. Business investment in 2022 Q4 was 2.2% below the level it was in 2019 Q4, the quarter before the Covid-19 pandemic.

## Job vacancies continue to fall in the UK

The number of UK job vacancies was 1,124,000 in the period December 2022 to February 2023, decreasing 51,000 from the previous quarter.<sup>14</sup> In December 2022 to February 2023, total vacancies were down by 162,000 from the level of a year ago, although they remained 328,000 above their pre-pandemic 2020 Q1 levels.

Pay as You Earn Real Time Information<sup>15</sup> early estimates show a rise in the number of payroll employees in the UK for February 2023 to 30.0m, an increase of 684,000 employees (or

2.3%) over the figure for February 2022, and a rise of 1,040,000 (or 3.6%) since February 2020. Payrolled employment increased by 98,000 employees (0.3%) in February 2023 when compared with January 2023.

In the year to February 2023, the increase in payrolled employees in the UK was largest in the health and social work sector (an increase of 158,000 employees or 3.9%) and smallest in the wholesale and retail sector (a decrease of 31,000 or 0.7%). The wholesale

<sup>12</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/octobertodecember2022>

<sup>13</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/octobertodecemberrevisedresults>

<sup>14</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/march2023>

<sup>15</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/march2023>

and retail sector, and the households and extraterritorial category experienced a fall in payrolled employees between February 2022 and February 2023. The percentage increases in payroll employees over the year was highest in arts, entertainment, and recreation (7.0% or 40,000 employees) and information and technology (5.4% or 68,000 employees).

In Wales the number of payroll employees grew by over 24,000 to just over 1.3m in the year to February 2023.<sup>16</sup> The UK regional data on payroll

employees by sector is updated less frequently, but the data to January 2023 showed that the percentage increase in payroll employees over the year was highest in arts, entertainment, and recreation (9.1% or 2,000 employees), while the wholesale and retail sector experienced a decline of 0.9% (or 1,600 employees).<sup>17</sup> Over the year to January 2023, there was an increase of nearly 5,800 (or 3.3%) payrolled employees in the education sector in Wales, and 5,300 (or 2.5%) in health and social work.

## UK unemployment relatively stable in the three-month period to January 2023

For the three-month period to January 2023 the UK unemployment rate was an estimated 3.7%, no change from the previous three-month period, and 0.3 points below the pre-Covid level in the three months to February 2020.<sup>18</sup> The highest UK regional unemployment rates in the three-months to January 2023 were in the West Midlands (4.5%), London (also 4.5%), and North East (4.1%), while the lowest rates were in the South West (2.3%), Northern Ireland (2.4%), and Scotland (3.1%). In the same period, the unemployment rate in Wales was estimated at 3.5%, a 0.1 point fall from the previous three-month period.

The UK redundancy rate for the three-month period to January 2023 increased on the previous three-month period.<sup>19</sup> According to the Labour Force Survey, the UK redundancy rate increased to 3.3 per 1,000 employees in the three-month period to January 2023, increasing from 3.1 per 1,000 employees in the three-month period to the end of October 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 latest available redundancy rate for Wales at the time of writing, for the three-month period to November 2022, was 2.9 per 1,000 employees.<sup>20</sup> This was the same as the previously latest released figure for the three months to the end of October 2022. Other estimates for Wales since that time have been suppressed on disclosure grounds by the ONS. The redundancy rate in Wales in the three-month period to November 2022 was lower than Scotland (3.1 per 1,000 employees), and England (3.5 per 1,000 employees), but above Northern Ireland (2.0 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.

<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/current>

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

<sup>19</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

<sup>20</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/redundancies/datasets/redundanciesbyindustryagesexandremploymentratesred02>

## Unemployment benefit claimants fall

The UK unemployment-related benefit claimant count fell by 0.23m to 1.54m people during the year to February 2023.<sup>21</sup> In Wales, just over 63,200 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 February 2023. According to the data for February 2023, the Welsh unitary authority areas with the highest proportion of working age population claiming unemployment-related benefits were

Newport (4.4%), Blaenau Gwent (4.3%), Cardiff (3.8%), Merthyr Tydfil (3.7%), Swansea (3.7%), and Denbighshire (also 3.7%), and those with the lowest proportions were Powys (2.3%), Monmouthshire (2.4%), Carmarthenshire (2.8%), and Ceredigion (also 2.8%). The proportion of the working age population claiming unemployment-related benefits in February 2023 had reduced in each of the local authority areas of Wales when compared with February 2022.

## Economic inactivity continues to decrease in the UK

There was a 0.2 percentage point decrease in the UK inactivity rate to 21.3% in the quarter November 2022 to January 2023. The ONS Labour Market Overview, UK: March 2023<sup>22</sup>, noted that the economic inactivity rate is still above pre-pandemic levels. The

decrease in economic inactivity in the latest three-month period was mainly driven by people aged 16 to 24 years. The economic inactivity rate in Wales decreased 0.1 of a percentage point on the quarter to 24.9% in November 2022 to January 2023.<sup>23</sup>

## Negative growth in GDP in Wales in 2022 Q2

The quarterly GDP estimates indicate that Wales and Northern Ireland experienced negative quarter-on-quarter growth in gross domestic product (GDP) of 0.4% and 0.3% respectively in 2022 Q2.<sup>24</sup> England and Scotland experienced

flat quarterly GDP 'growth' at 0%. 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>21</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/unemployment/datasets/claimantcountbyunitaryandlocalauthorityexperimental>

<sup>22</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2023>

<sup>23</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

<sup>24</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpukregionsandcountries/apriltajune2022>

## The value of exports from Wales increased in the year to 2022 Q4

The ONS note that a degree of caution should also be applied when interpreting data on trade. Data are typically published in current or nominal prices which means they have not been adjusted to remove the effects of inflation. For the period to 2022 Q4 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 2022 compared with 2021.<sup>25</sup> In Wales the value of exports increased by 34.9% to £20.5 billion over the year to December 2022 (compared with an increase of 23.5% in Scotland, 18.1% in England, and 15.3% in Northern Ireland).

The value of Welsh exports had a relatively high growth in several sectors over the year to December 2022<sup>26</sup>. Mineral Fuels total exports went up from £2.1bn in 2021 to £4.6bn in

2022, an increase of 117%. Machinery and Transport exports increased from £6.4bn in 2021 to £7.5bn in 2022, a growth of 19%. Other notable increases were in Welsh exports of Manufactured Goods (increasing from £2.4bn in 2021 to £3.0bn in 2022), and Chemicals (up from £2.4bn in 2021 to £2.9bn in 2022). Comparing the total number of exporting businesses in 2022 with 2021, the number of businesses exporting decreased for Wales but increased in England, Scotland, and Northern Ireland<sup>27</sup>.

The value of imports also grew in all UK countries in 2022 compared to 2021. In Wales the value of imports increased by 49.3% to £24.1 billion over this period (compared to increases of 46.8% in Scotland, 32.0% in England, and 21.4% in Northern Ireland).

## UK economy forecasts

The March 2023 HM Treasury Forecasts for the UK Economy<sup>28</sup> publication contained a comparison of independent forecasts received between the 1st and the 9th of March 2023. The average forecast for UK GDP growth in 2023 was -0.5%, an upgrade from the -0.7% projected in the February 2023 publication. The average forecast for GDP growth for 2024 has been downgraded slightly compared with forecasts made in the previous month, from 0.9% in the February forecast to 0.8% in the March forecast.

The IMF's April 2023 World Economic Outlook<sup>29</sup> forecasts UK GDP growth of -0.3% in 2023, an upward revision of 0.3 of a percentage point from the January 2023 publication. A UK GDP growth of 1.0% is predicted by the IMF for 2024.

In February 2023 the Bank of England's projection for UK four-quarter GDP growth<sup>30</sup> was -0.3% for 2023 Q1, an upgrade from the -0.6% forecast in November 2022. Energy prices remaining high, and the trajectory of market interest rates were noted as impacts

<sup>25</sup> <https://www.uktradeinfo.com/trade-data/regional/2022/uk-regional-trade-in-goods-statistics-fourth-quarter-2022/>

<sup>26</sup> Accompanying data tables to: <https://www.uktradeinfo.com/trade-data/regional/2022/uk-regional-trade-in-goods-statistics-fourth-quarter-2022/#datasets>

<sup>27</sup> See footnote 26

<sup>28</sup> <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-march-2023>

<sup>29</sup> <https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023#:~:text=The%20baseline%20forecast%20is%20for,to%201.3%20percent%20in%202023.>

<sup>30</sup> <https://www.bankofengland.co.uk/monetary-policy-report/2023/february-2023>

on spending. The Bank of England projected four-quarter GDP growth to fall to -0.7% for 2024 Q1, but pick up to 0.2% in 2025 Q1.

In their Winter UK Economic Outlook<sup>31</sup> published in February 2023, the National Institute of Economic and Social Research (NIESR) noted that the UK is likely to avoid a technical recession (i.e. two consecutive quarters of contractions in its real GDP) in 2023 but, with GDP growth set to remain close to zero for

the year, it would feel like a recession to many. The NIESR Winter Economic Outlook indicated that long-run economic prospects for Wales were likely to be inhibited by a relatively high concentration of firms affected by new trading arrangements under Brexit – such as those in agricultural and industrial sectors. Furthermore, although projections for 2024 Q4 indicate that Welsh productivity will grow, it is not forecast to close the existing gap to the UK average.

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<sup>31</sup> <https://www.niesr.ac.uk/publications/recession-avoided-prospects-remain-bleak?type=uk-economic-outlook>

- The FSB Small Business Confidence Index is close to its level during the second Covid-19 lockdown.
- Wales saw the second highest small business confidence amongst the UK regions.
- The number of business deaths has exceeded business births in Wales for two quarters.

### Small business confidence has decreased over three quarters

The FSB small business confidence index<sup>32</sup> decreased over the three quarters to 2022 Q4. Confidence decreased from -35.9 in 2022 Q3 to -45.8 in 2022 Q4. This latter was close to the confidence level prevailing in 2020 Q4 at the time of the second national lockdown. The small business confidence index has remained negative across all UK regions for three consecutive quarters. Key determinants of poor confidence include rising interest rates, high energy costs, and slowing consumer demand.

All major industries saw decreasing business confidence in 2022 Q4 but with manufacturing and construction notable exceptions (although still in negative territory). Wholesale and retail saw the weakest confidence in 2022 Q4, at -83.3. This sector has been hit hard by the cost-of-living crisis and lower levels of consumer confidence. The sharpest decrease was seen in information and communication, which decreased from 12.2 to -25.2 in the quarter.

The net balance of small businesses reporting increased revenue over 2022 Q4 stood at -10.1%, suggesting that more businesses saw a decrease in revenue than an increase. This element of the index has remained negative for three consecutive quarters. The wholesale and retail trade sector also saw the worst figure in terms of net balance, with a reading of -30.3%. Small businesses showed pessimism for the future with 44% expecting their sales to decrease in the first quarter of 2023 and with just 29% expecting to see an increase.

The net balance of small businesses reporting an increase in operating costs was 86.1% in 2022 Q4, which is a record high. More than 60% of small businesses attributed rising costs to energy costs. Furthermore, the share of small firms reporting rents as a source of rising costs increased to 20.5%.

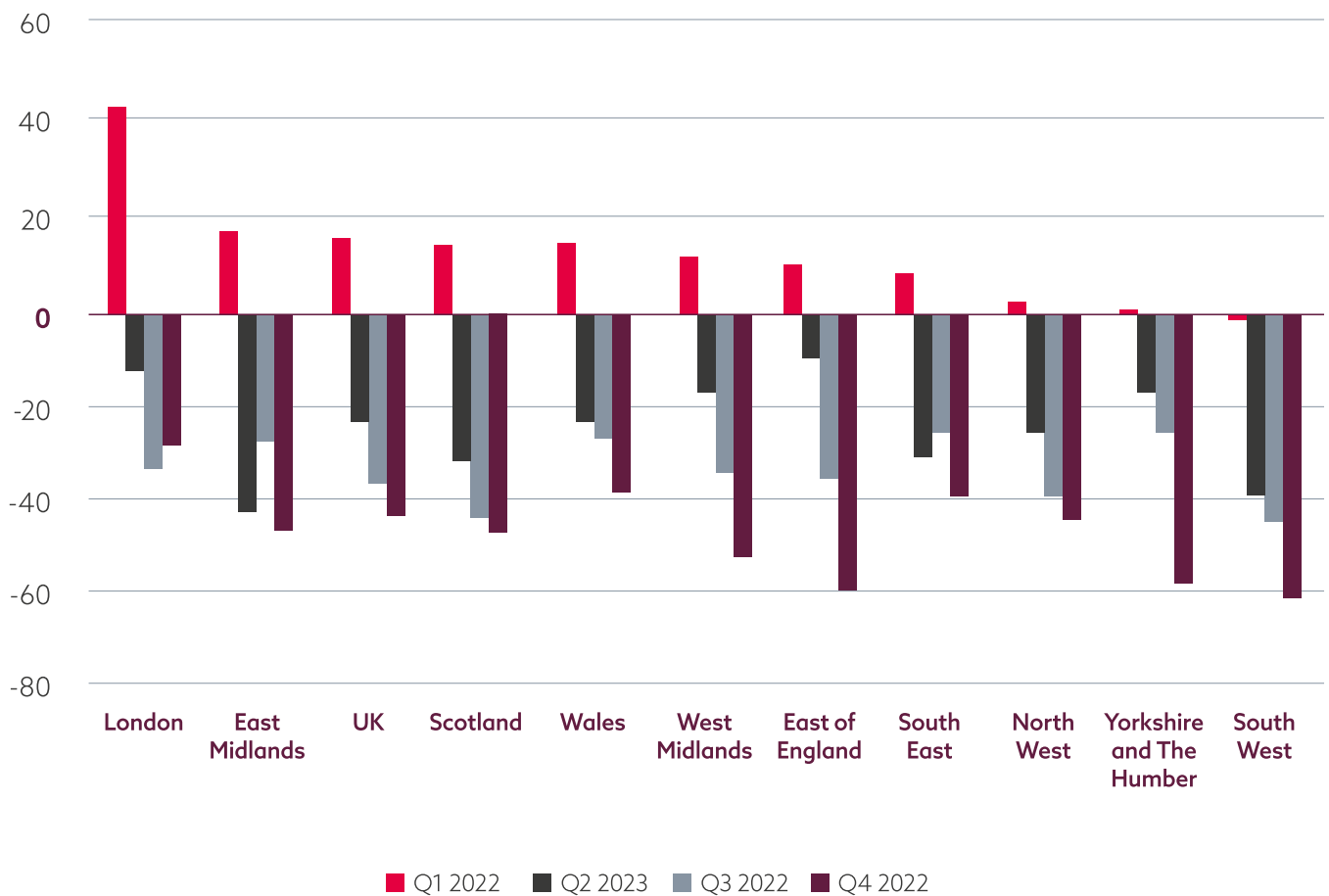
<sup>32</sup> "The Small Business Index is a weighted index of the responses to the question: 'Considering your overall business performance, and ignoring any normal seasonal variations at this time of the year, how do you view business prospects over the next three months, compared with the previous 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).

### Welsh SME confidence ranked 2nd in 2022 Q4

Figure 1 reveals the fall in business confidence across UK regions in 2022. Most regions saw a major fall in confidence in the final quarter of last year excepting London. Business confidence in London saw a slight increase from -33 to -29 in the final quarter. Wales saw a decrease in

business confidence from -29 in 2022 Q3 to -38 in 2022 Q4 but did not see the falls witnessed in many other regions of the UK. The South West saw the worst confidence levels on the final quarter of 2022, standing at -62.

**Figure 1.**  
Small Business Index, UK regions, 2022Q1-2022Q4

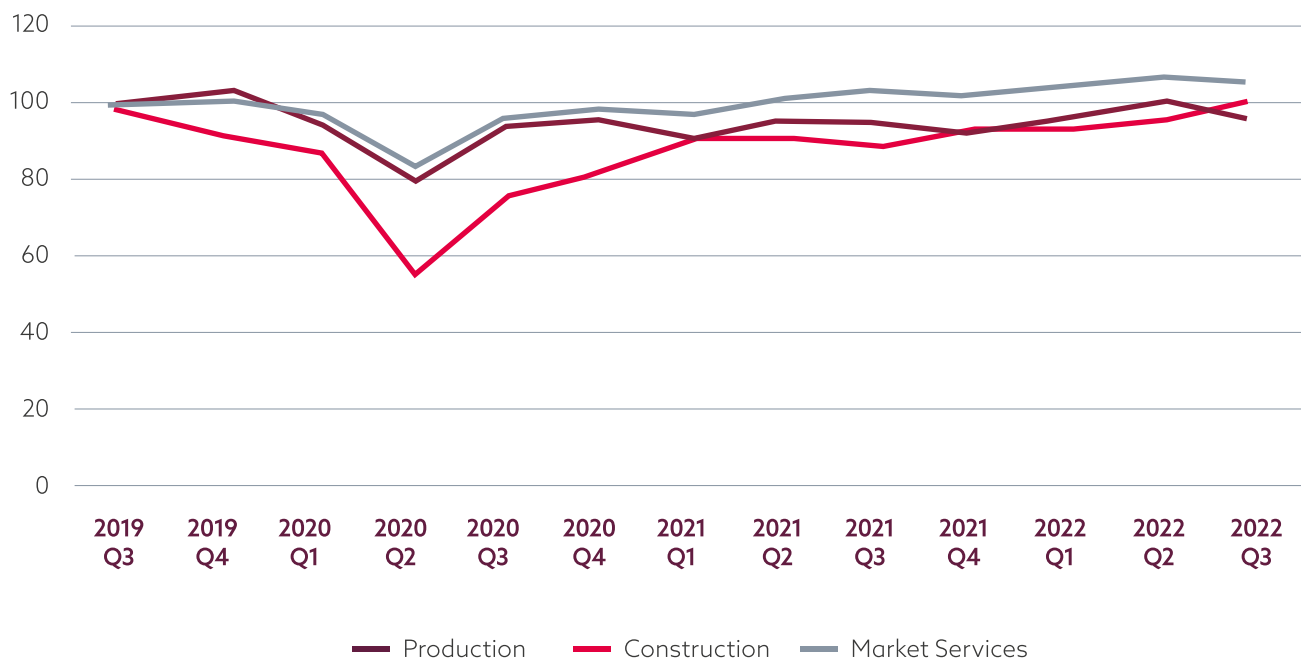


Source: [FSB Voice of Small Business Index 2022 Q4](#)

Figure 2 reveals the trend in Welsh production, construction, and market service output indices from 2019 Q3 to 2022 Q3. Output as a whole has recovered from the sharp falls in 2020 Q2. An important component of the index of production is manufacturing, and output in manufacturing fell by 6% between 2022Q2-Q3, and with this reflecting falls in key Welsh sectors such as chemicals, basic metals and computers and electronic products. The index of Welsh construction has steadily increased

through 2022 and is very close to 2019 pre-Covid levels. There are a series of major housebuilding and infrastructure projects underway in Wales which helped maintain sector output through 2022. However, prospects for Welsh construction in 2023 have been damaged by the Welsh Government decision to cancel a series major road building projects although with some prospect of new investment in more sustainable transport options.

**Figure 2.**  
Welsh output indices: trend 2019Q2-2023Q3 (2019=100)



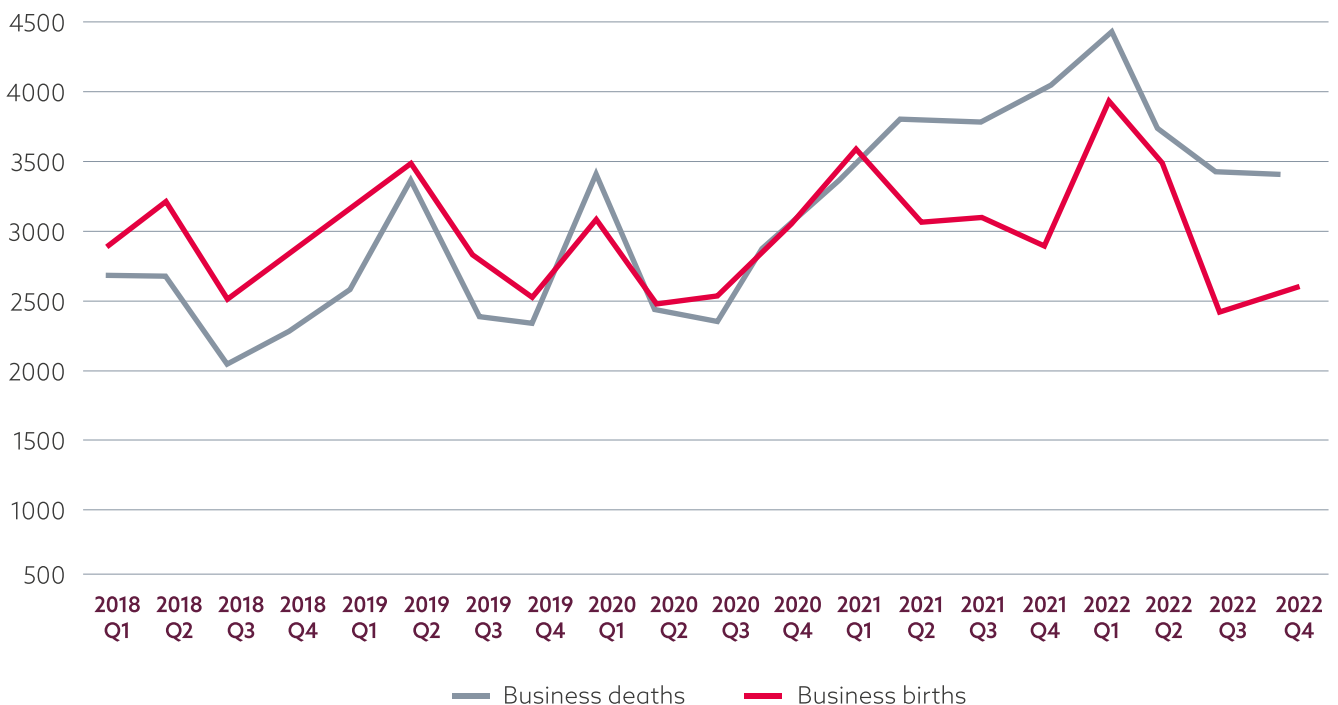
Source: Stats Wales, [Welsh Indices of Production and Construction \(2019=100\) by section and year](#) and [Index of Market Services \(2019=100\) by year and area](#)



ONS business demography statistics reveal that both UK business births and deaths increased slightly in 2022 Q4.<sup>33</sup> The number of business births increased from 67,390 to 69,445 and business deaths increased from 79,305 to 82,390. Figure 3 shows the quarterly variation in Welsh business births and deaths from 2017

to 2022. During 2022 Q4 there were 2,580 births and 2,910 deaths. This means there have been two consecutive quarters in which business deaths exceed business births in Wales. Both numbers of births and deaths have decreased by more than 10% when compared to 2021 Q4.

**Figure 3.**  
Quarterly business births and deaths in Wales 2018Q1-2022Q4



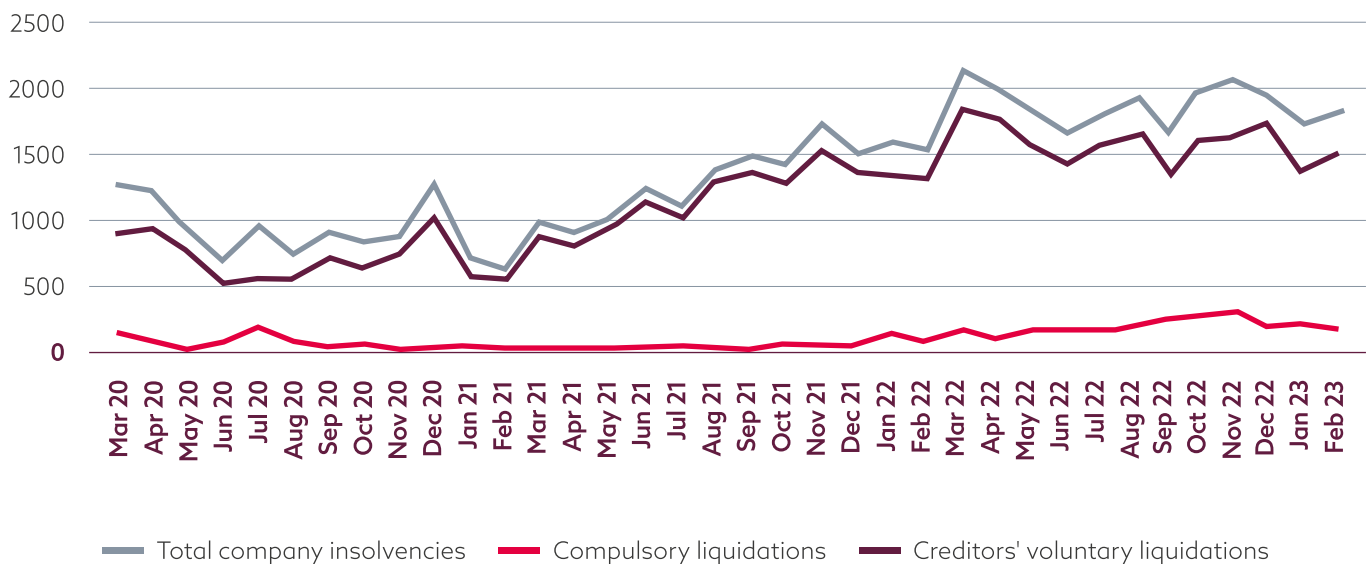
Source: [ONS Business demography, quarterly experimental statistics, UK](https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticsuk)

<sup>33</sup> <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticsuk>

Figure 4 reveals recent trends of registered company insolvencies in England and Wales.<sup>34</sup> The number of insolvencies decreased after the sharp increase in March 2022. The total insolvencies decreased from 2,120 to 1,783 during the year to February 2023. The majority of insolvencies were driven by creditors' voluntary liquidations, while only 158 insolvencies were

compulsory liquidations in February 2023. There was some expectation that insolvencies would increase in the first quarter of this year because higher interest rates and the cost-of-living crisis were placing pressure on the funds of debtors.<sup>35</sup> It is also likely that the supports put in place to help small firms through the Covid-19 crisis may have worked to delay some insolvencies.

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



Source: [ONS Monthly Insolvency Statistics](https://www.ons.gov.uk/methodologies/insolvency-statistics)

<sup>34</sup> <https://www.gov.uk/government/collections/monthly-insolvency-statistics>

<sup>35</sup> See <https://www.icaew.com/insights/viewpoints-on-the-news/2023/feb-2023/uk-company-insolvencies-rise-to-13-year-high>

### Trends in county court judgments

County court judgement (CCJ) for debts are one expected predictor for insolvencies. A person getting a CCJ for debt means someone has taken court action and then the court has formally decided that the person owns the

money. There were 214,000 judgments made in 2022 Q4 in the UK, of which 195,000 (91%) were default judgements<sup>36</sup>. This figure has been stable over the last 4 quarters, indicating that future insolvencies may remain close to current levels.

### Trends from the SME Finance Monitor

The BVA BDRC SME Finance Monitor for 2022 Q4 revealed that an estimated 27% of all SMEs (excluding starts) reported growth in the past 12 months.<sup>37</sup> This ranged from 25% in cases where businesses had 0 or 50-249 employees to 32% in cases where businesses had 1-9 employees and 42% with 10-49 employees. The proportion of SMEs that reported growth was higher than that seen in 2021, but still below pre-pandemic levels when typically 40% of SMEs were reporting year on year growth. Some 40% of surveyed SMEs expected to grow in the next year. This revealed some improvement in prospects. For example, in 2022 Q2 just 24% of SMEs surveyed expected growth in the following year. The expectations of future growth figure in 2022 Q4 increased to 64% for fully international SMEs and to 71% for new starts.

SME operations continued to be strongly influenced by increasing costs: 73% of SMEs reported being impacted by increasing

costs and with 41% considering increasing costs as a major future barrier. The percentage of SMEs concerned about the economic climate increased from 21% in 2021 to 35% in 2022 Q4. Meanwhile, 27% of SMEs reported political uncertainty and government policy as a barrier in 2022 Q4.

The ONS Business Impacts and Conditions Survey (BICS) for the period 3 April to 16th April 2023 (Wave 80)<sup>38</sup> revealed that business conditions were challenging but that there were signals of improvements in terms of a smaller proportion of businesses reporting lower turnover, and a lower proportion of firms revealing higher prices for their purchases of goods and services. Some 19% of businesses reported increasing turnover, and with this up from the 16% of firms reporting increased turnover in February 2023. An estimated 16% of businesses reported that the price of their goods or services increased in April 2023.

<sup>36</sup> <https://www.gov.uk/government/statistics/civil-justice-statistics-quarterly-october-to-december-2022/civil-justice-statistics-quarterly-october-to-december-2022#judgments>

<sup>37</sup> [https://www.bva-bdrc.com/wp-content/uploads/2023/03/BVABDRC\\_SME\\_FM\\_Q4\\_2022.pdf](https://www.bva-bdrc.com/wp-content/uploads/2023/03/BVABDRC_SME_FM_Q4_2022.pdf)

<sup>38</sup> [Business insights and impact on the UK economy - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/business-and-productivity/business-impacts-and-conditions-survey)

- The SME Finance Monitor reveals expected reductions in the supply of external finance.
- Default rates on UK loans expected to grow for all size classes of businesses.
- Announced financial investments in the UK were decreasing according to Crunchbase data.

## The supply and demand of credit to SMEs in 2022Q4

The Bank of England Credit Conditions 2022 Q4 Survey<sup>40</sup> reported credit conditions for the three months to end-November 2022 (Q4), and with these compared to the period between June and August (Q3). Furthermore, the survey reported the expected changes in the supply and demand of credit in 2023 Q1. Lenders reported that the overall supply of credit to businesses was unchanged. However, the supply to medium-sized businesses decreased in 2022 Q4. The credit supply to businesses was also expected to decrease slightly in 2023 Q1. The survey also revealed that the demand for corporate lending from small and medium-sized companies decreased in 2022 Q4. Demand for corporate lending in 2023 Q1 was expected to be unchanged for small businesses, but was expected to decrease for medium-sized businesses.

The default rates on business lending increased for small businesses, slightly increased for medium-sized business, and was stable for large firms in 2022 Q4. The default rates were expected to increase for all sizes of businesses in 2023 Q1.

The Bank of England Agents' Summary of business conditions (2023 Q1)<sup>41</sup> indicated that demand for credit was subdued because of higher borrowing costs and the uncertain economic outlook prevailing. Some companies had been encouraged to pay down debt to reduce leverage. Moreover, lower credit-rated firms faced difficulties in getting access to credit. There was a reported trend that SMEs were better able to access credit for working capital or equipment purchases but less so for property investment or corporate acquisition.

<sup>39</sup> <https://www.bankofengland.co.uk/credit-conditions-survey/2022/2022-q4>

<sup>40</sup> <https://www.bankofengland.co.uk/agents-summary/2023/2023-q1>

## Small Business Finance Markets reveals increased lending last year

The British Business Bank's Small Business Finance Markets 2023 report revealed that in 2022 there had been a 12.8% increase in lending by banks to small businesses with the total reaching £65.1bn. The report also showed that almost £36bn had been lent by challenger and specialist banks during the year, and that this total exceeded that which was lent out by the main UK banks. However, the report highlighted demand for smaller business finance had fallen with 33% of small businesses making use

of external finance in 2022 Q3 compared to 44% in the same quarter in the previous year. Reflecting tougher loan conditions, the success rate for those seeking finance was 64% in 2022 compared to 80% in the previous year.<sup>41</sup>

The same report revealed that while UK SME equity markets were strong at the start of 2022, their growth had fallen through the year but that the cumulative capital invested in UK SMEs was an estimated £14.8bn up to 2022 Q3.

## Steady increases in the cost of borrowing

Figure 5 reveals the monthly growth rate of SME loans and the interest rate on SME loans based on Bank of England data.<sup>42</sup> The growth rate of SME loans has remained in negative territory since September 2021. This corresponds with the Bank of England Credit Conditions 2022 Q4 Survey that revealed decreasing demand for finance from SMEs. Decreasing demands

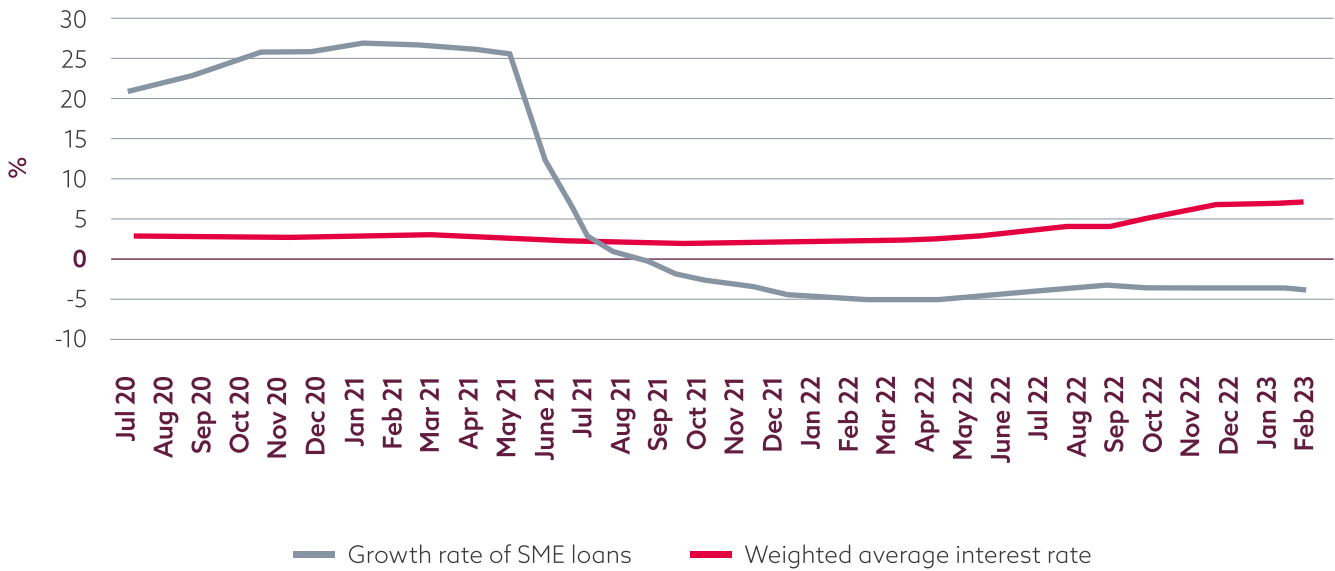
for SME loans are also likely driven by high interest rates. These have increased now for 16 consecutive months, from 2.65% in October 2021 to 6.47% in February 2023.<sup>43</sup> The Bank of England raised the Bank Rate 8 times in 2022 and already twice in 2023 to reduce inflation. The current Bank rate in March 2023 is 4.25%.

<sup>41</sup> [Small Business Finance Markets 2022/23 \(british-business-bank.co.uk\)](https://www.british-business-bank.co.uk/small-business-finance-markets-2022-23)

<sup>42</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>43</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.

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



## A decrease in UK financial investments

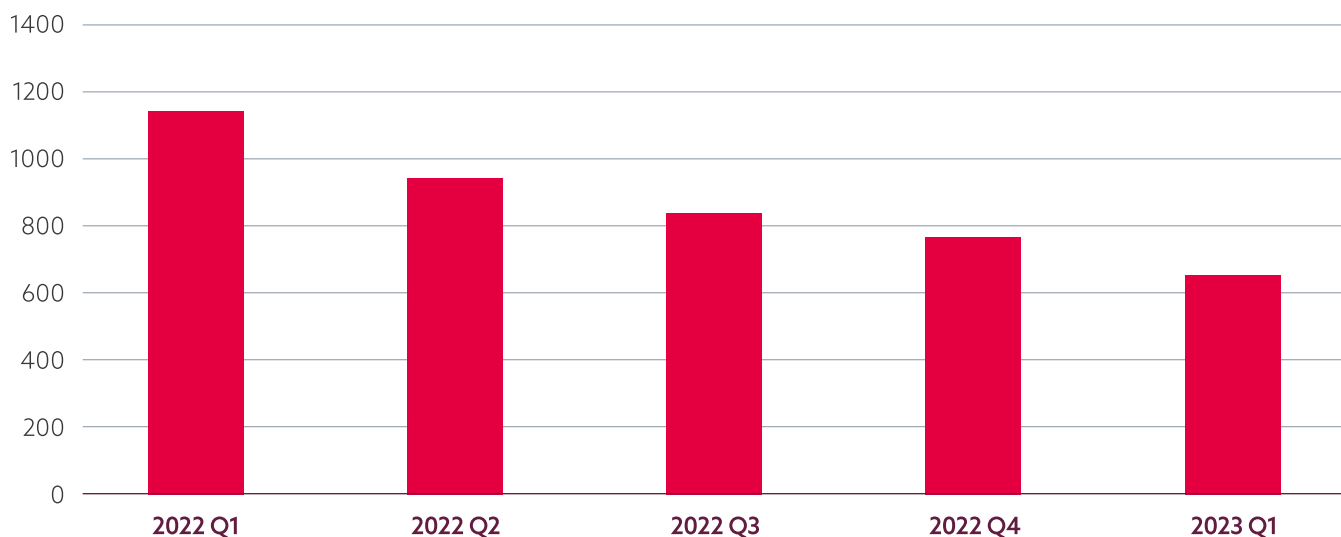
The Crunchbase dataset provides business information on private and public companies and includes investment information. Figure 6 reveals the number of total financial investments (mostly private equity investments) in the

UK from 2022Q1 to 2023Q1.<sup>44</sup> The results revealed a continuous decrease in the number of investments in the UK for 5 consecutive quarters, from 1,143 to 628. There were 23 investments in Cardiff during that period.

<sup>44</sup> A definition of funding types of Crunchbase data is available at: <https://support.crunchbase.com/hc/en-us/articles/115010458467-Glossary-of-Funding-Types>

**Figure 6.**

*Number of financial investments in the UK according to Crunchbase*

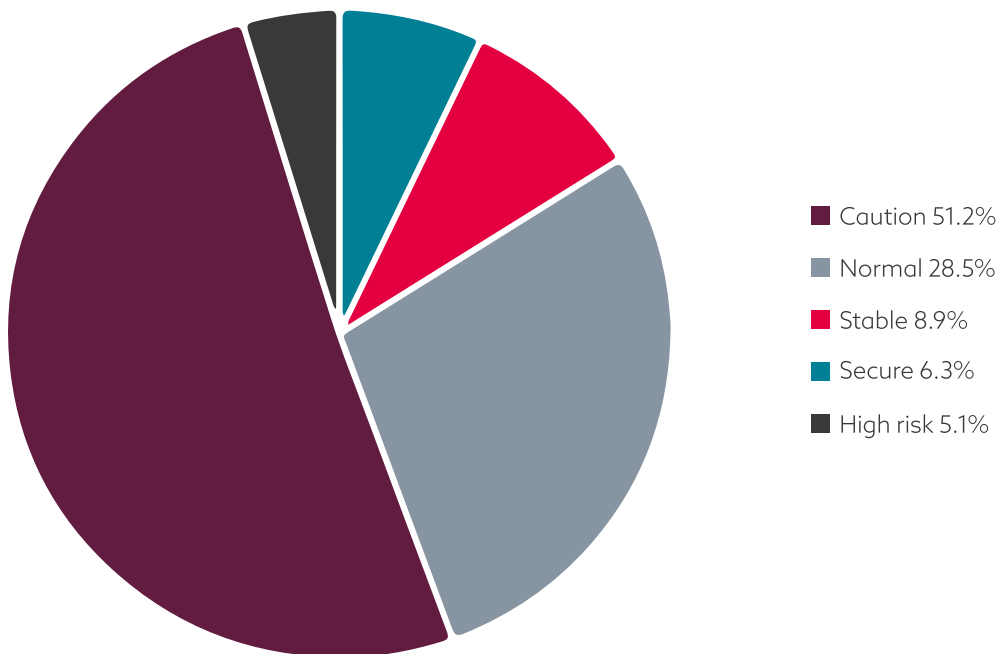


Source: Crunchbase.

Figure 7 provides an update on the credit risk associated with Welsh SMEs. In April 2023 the Bureau van Dijk FAME database was examined and credit score information was available for a total of 88,585 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 88,585 identified Welsh SMEs, some 45,369 (51.2%) fell into the Caution category, and 4,561 (5.1%) were rated as High risk (see Figure 7). The proportion estimated as High risk has grown from 4.8% in January 2023. It remains difficult with this data to compare one period with another but the total percentage of firms in a combined Caution and High risk category appears to have increased from 55.7% of the total in January, to an estimated 56.3% in April 2023.

**Figure 7.**  
*Credit rating summary of Welsh SMEs: % in each risk category (n=88,585) April 2023*



Source: Derived from FAME database search, April 12th 2023.

## The proportion of SMEs using external finance declined in 2022 Q4

The SME Finance Monitor asked SMEs about their use of external finance. The proportion of businesses using external finance in 2022Q4 was 36% compared to 43% across all business sizes and classes in 2021. In the 2022 Q4 Survey it was estimated that 48% of SMEs could be defined as a permanent non-borrower. The report went on to reveal that an estimated 35% of SMEs were borrowing more than £25,000 and an estimated 31% of SMEs had injected personal

funds in 2022, which was lower than the 37% reported for 2021. SMEs were reported as being cautious about finance and with an estimated 16% of SMEs using external finance in 2022 revealing that they had concerns about their debt levels. An estimated 85% of SMEs in 2022 reported that their finance plans were based on what they could afford. Meanwhile, some 31% of SMEs were happy to borrow to grow.



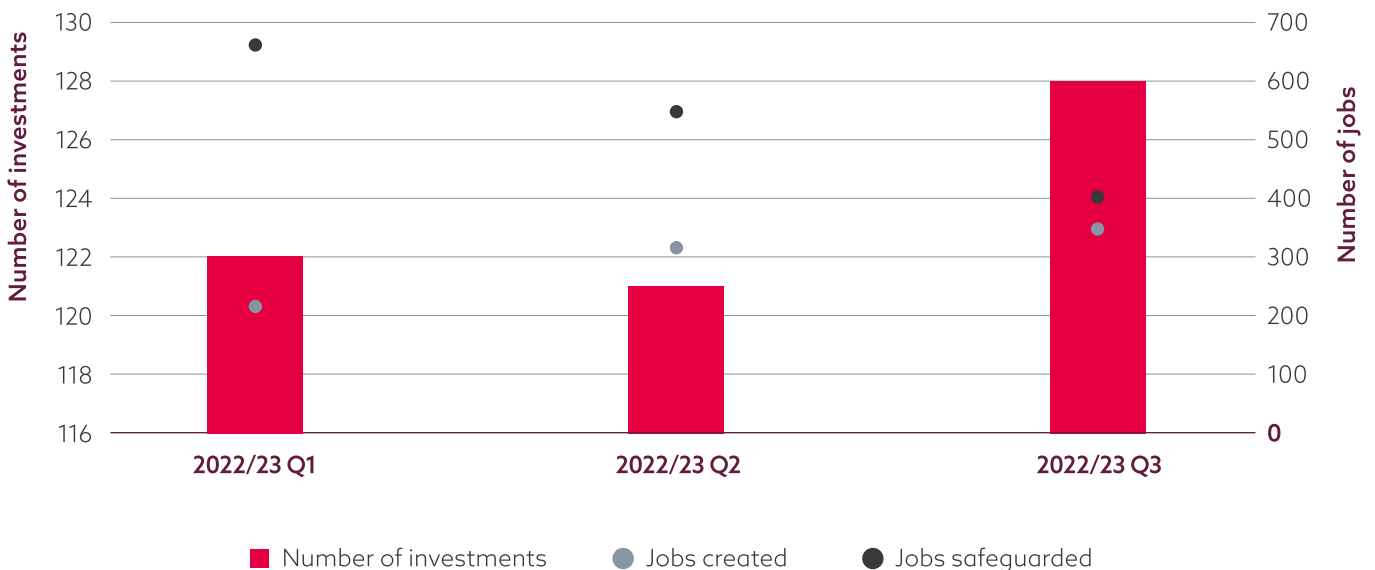
- In 2022/23 Q3 the Development Bank of Wales made 128 investments with a value of £31.5m and a sharp increase in the value and number of equity investments made.
- Investments made in 2022/23 Q3 created or safeguarded 734 jobs.
- The construction sector continued to secure the highest value of investments in 2022/23 Q3, at £12.47m.
- The highest number of jobs created and safeguarded from Development Bank investments in 2022/23 Q3 were in Professional, scientific and technical activities, and then wholesale and retail.

## In the third quarter of 2022/23, the Development Bank of Wales made a total of 128 investments, connected with 734 created and safeguarded jobs

Figure 8 reveals that the number of investments made by the Development Bank grew by around 6% in the third quarter to 128. This means that in the first three quarters of 2022/23 the

Development Bank made 371 investments, that total some £86.4m. The first three quarters have also seen a total of 869 jobs estimated to have been created and a further 1,596 safeguarded.

**Figure 8.**  
Number of investments and jobs created and safeguarded, 2022/23 Q1 – 2022/23 Q3

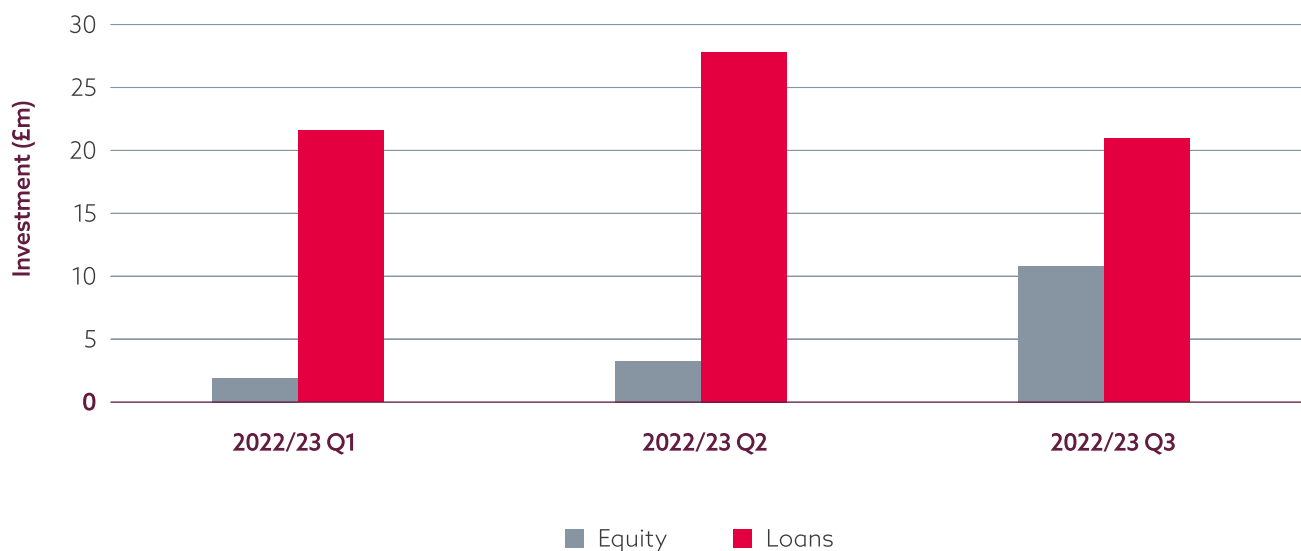


## The total value of 128 investments made in 2022/23Q3 was £31.5m

The average value of each investment in 2022/23 Q3 was around £246,000, very slightly below the average £257,000 reported for 2022-23 Q2. Over the four quarters to 2022/23 Q3 the average value of investments was £223,000.

The third quarter (see Figure 9) compared to the second quarter saw a fall in the amount of loans from £28m to £20.8m but a sharp increase in the amount of equity investment from £3.1m to £11m. Total equity investment in the first three quarters of 2022-23 is £15.7m while total loans were £71m.

**Figure 9.**  
Value of investments by type (£m) 2022/23Q1 - 2022/23Q3

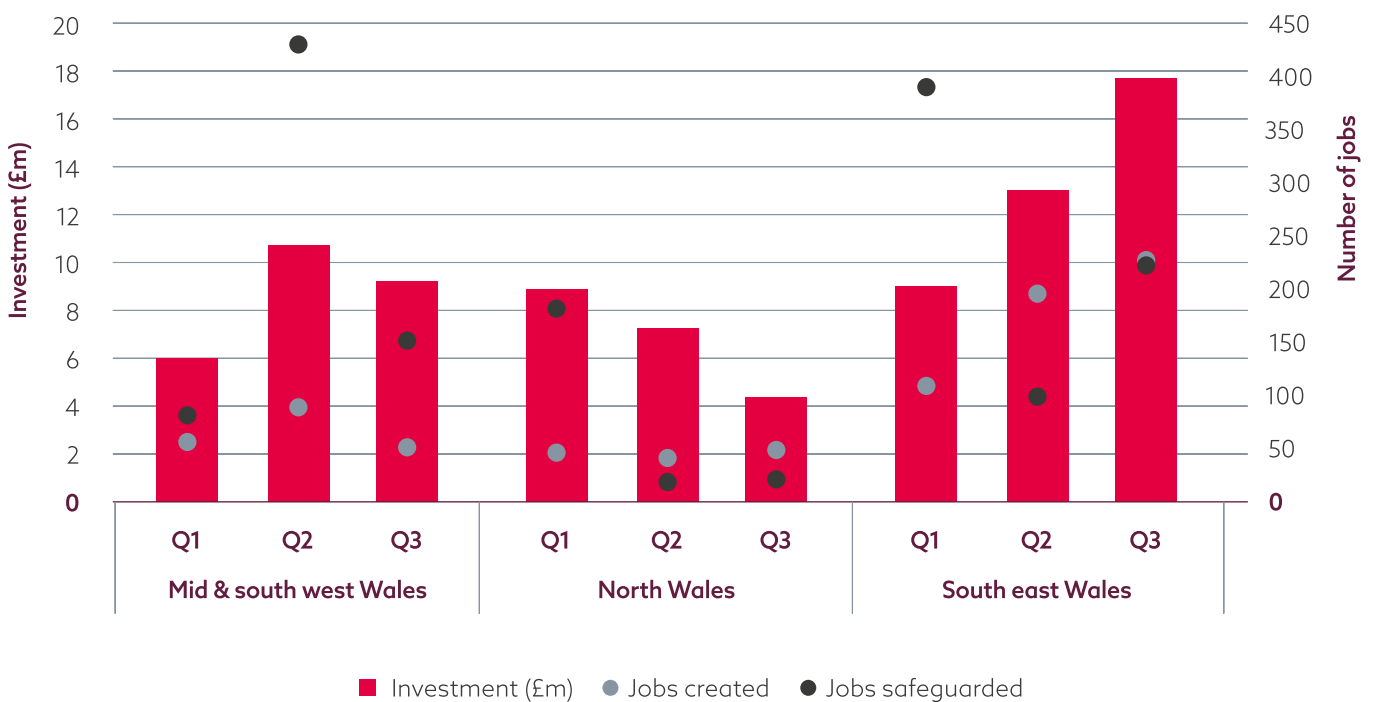


## South east Wales sees sharp increase in investment in the first 3 quarters

Figure 10 reveals that south east Wales has seen a sharp increase in investment in the third quarter of 2022/23. Investment in south east grew from £8.9m in Q1, to £13m in Q2 to £17.8m in Q3. This means that in the first three quarters south east has accounted for over half of the total investment. The south east region of Wales has the highest business population, and always tends to gain the most significant share of Development Bank investments. The value of investments in north Wales has fallen from £8.8m in Q1 to £4.5m in Q3.

While the investments made by the Development Bank in 2022/23 Q3 created the highest number of new and safeguarded jobs in south east, Figure 10 reveals that there was also the creation and safeguarding of over 200 jobs in mid and south west Wales. Indeed over the first three quarters of this financial year, mid and south west Wales has seen the creation and safeguarding of 851 jobs from Development Bank investment, compared to 1,248 in the much larger south east Wales region. 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 to Q3*



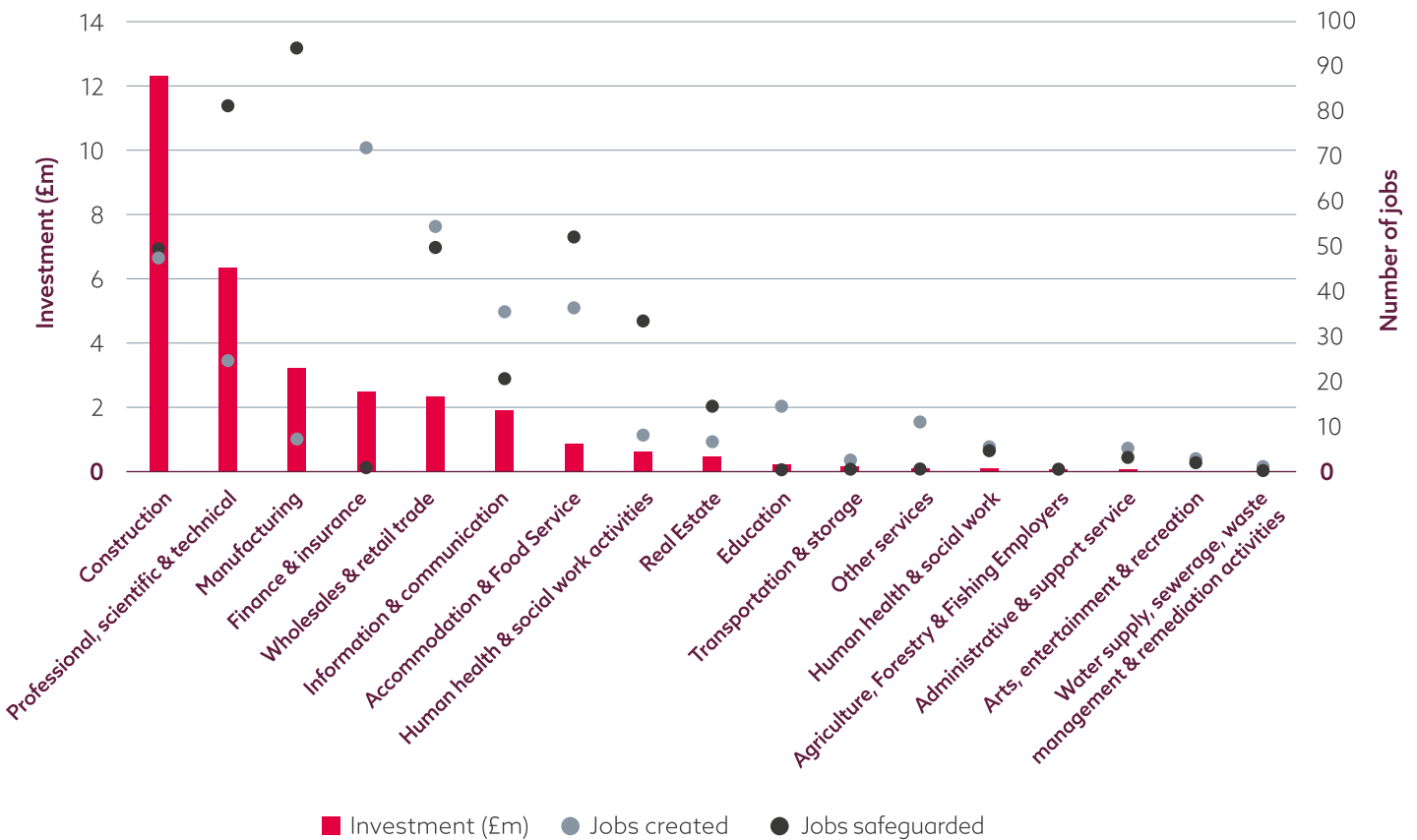
## In 2022/23 Q3 the highest total number of jobs created and safeguarded were in wholesale and retail

Figure 11 reveals the industry distribution of Development Bank investments and the related jobs created and safeguarded. The construction sector received the highest levels of investment in 2022/23 Q3 at £12.5m or just under 40% of the total Q3 investment of £31.5m. As indicated in prior Quarterly reports, a proportion of these investments are from property-related funds (where jobs are not a key performance indicator). In spite of this the Construction sector investments in Q3 were associated with 96 created and safeguarded jobs. The second largest sector recipient of investment in Q3

was in Professional and Scientific services (£6.4m or 20% of the Q3 total, and associated with 106 created and safeguarded jobs).

The highest number of jobs created and safeguarded from Development Bank investments made in 2022/23 Q3 were in Professional, scientific and technical activities (106 jobs created and safeguarded from £6.4m of investment) followed by Wholesale and retail trade businesses (104 jobs created or safeguarded from £2.4m of investment). There was a relatively high number of jobs safeguarded (93) in manufacturing in 2022/23 Q3.

**Figure 11.**  
*Investment and associated employment by industry 2022/23 Q3*



This Quarterly report suggests that challenging conditions remain for SMEs in Wales and with pressure on costs a persistent theme. However, businesses might draw some comfort from the expected reduction in inflationary pressure in the economy through this year, and hopefully better Welsh and UK growth prospects in 2024 and 2025. It will be important during 2023 to carefully track what is happening to business investment in the Welsh economy, particularly through inward investment. Labour markets in the Welsh economy have remained comparatively strong with an overall increase in payroll employment in the year to February 2023. Moreover, UK GDP by January was above pre-Covid levels. However, the overall forecast remains for lower GDP growth in 2023 for the UK economy and with this expected to be replicated in the Welsh economy.

The Quarterly report reveals some encouragement in the final quarter of last year in that business confidence in Wales has not fallen to the same levels as seen in other, typically more prosperous, parts of the UK economy. There is also encouragement in falling business insolvencies, and with the SME Finance Monitor signalling in 2022 Q4 that 40% of SMEs expected to see growth in 2023. This noted, our data for Wales suggests a slightly

increased proportion of SMEs have entered the Caution and High risk credit categories, and once again it will be interesting to observe how far this translates into increases in Welsh insolvencies and liquidations through the year.

Recent events evidence how far the small open Welsh economy continues to be impacted by both wider UK and global events, but with the period 2022/23 revealing some resilience of the local economy, particularly in terms of the strength of labour markets, and the maintenance of industry output. There remain real challenges for the development of the Welsh economy not least in terms of improving productivity and growing business investment in research and development, and with this a subject of a future Economic Intelligence Wales report later this year. There would also seem to be challenges ahead in the development of publicly-funded infrastructure that supports all Welsh SMEs and with very limited monies available in the current economic climate.

The overall conclusion from this Quarterly report is then of some encouraging signs in terms of SME confidence but with economic conditions facing Welsh SMEs still fragile.

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>

Dirnad Economi Cymru  
Economic Intelligence Wales



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

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