

Economic Intelligence Wales

Quarterly report

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

This is the second Economic Intelligence Wales quarterly report of the 2023/24 financial year. This 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 the 2023/24 financial year. The report includes commentary on the global and local economic context and conditions affecting the supply and demand for finance in Wales.

Economic conditions.

In their October 2023 World Economic Outlook, the International Monetary Fund projected that global growth would slow from 3.5% in 2022 to 3.0% in 2023, and to 2.9% in 2024.

Data from the ONS showed that twelve-month Consumer Price Index (CPI) inflation in the UK was 4.0% in December 2023, up from 3.9% in November 2023.

In December 2023, the Bank of England maintained the Bank Rate at 5.25%.

In 2023Q3 UK gross domestic product (GDP) was estimated to have shrunk by 0.1%. GDP Monthly estimates show the UK economy expanded by 0.3% in November 2023, following a fall of 0.4% in October 2023.

In January 2024, Tata Steel, the Indian conglomerate, announced that it was to cut 2,800 jobs in the UK steel industry, with the majority of these expected to be lost at its Port Talbot facility within the following 18 months.

In October to December 2023, total UK vacancies were down by 226,000 from the level of a year ago. Estimates from PAYE show a rise in the number of payroll employees in the UK for December 2023 to 30.2m, an increase of 306,000 employees compared to December 2022. In Wales the number of payrolled employees grew by 11,000 to 1.31m in the year to December 2023.

The value of goods exported from Wales increased by 2.0% to £19.9bn in the year ending September 2023.

The average forecast for UK GDP growth in 2024 remained at 0.4% in January 2024, the same as the average forecast made in December 2023.

Changing economic conditions shaping demand for finance

There were an estimated 253,395 active SMEs in Wales in 2022, of these, 241,710 were micro businesses employing fewer than nine people. Provisional figures for 2023 suggest that the total number of SMEs fell by around 3% to 246,375.

The FSB UK Small Business Index (SBI) of small business confidence registered its sixth successive negative quarterly reading in 2023Q3 of -8.0 points. This nevertheless represented an improvement on the 2023Q2 index of -14.2.

The SME Finance Monitor 2023Q3 reported that 27% of all responding UK SMEs (excluding starts) experienced growth over the last 12 months. The current economic climate was cited as the key barrier to SME growth in this survey.

The number of business births in Wales in 2023Q3 was 2,655, whilst the number of business deaths in Wales during the same period was 2,715.

The ONS Business Impacts and Conditions Survey (BICS) for 27th November to 10th December 2023 (Wave 97) found that some 24.1% of surveyed businesses in Wales expected sales to increase in January 2024, while 15.5% of Welsh firms were able to report that they expected their employment to increase in January 2024 (UK 15.1%).

ONS data, which captures both cash and mortgage-based purchases, showed that UK house prices fell by 1.2% in the 12 months to October 2023.

Summary

Halifax predicted a decline in house prices of between 2% and 4% during 2024.

The Bank of England expects that housing investment, largely comprising of new build spend, will have fallen by 5.75% in 2023, and to fall by 6.75% 2024.

Supply and demand for finance

According to the Bank of England, lenders reported that the availability of credit (defined as willingness and ability to supply credit) to the corporate sector remained unchanged in 2023Q3.

The SME Finance Monitor found that 50% of UK SMEs had used external finance during 2023Q3. This is an increase compared to the start of 2023, when it stood at 41%.

The growth rate of SME loans was -5% in September 2023 continuing the trend for decreasing loans to SMEs over the past 12 months. In September 2023 there was a small decrease in the average interest rate on SME loans compared with the previous month.

There is some prospect that interest rates to businesses will fall slightly in 2024 in line with lower inflation and Bank rate expectations.

The Bureau van Dijk FAME database of Companies House data revealed that 5.4% of SMEs in Wales were estimated to be in the highest risk credit rating category, down from around 5.8% in September 2023.

The latest British Business Bank/Beauhurst Small Business Equity Tracker reported that across the UK the decline in SME equity finance experienced during the second half of 2022 continued into 2023.

Development Bank of Wales activity

In 2023/24Q2 the Development Bank of Wales completed 123 investments, with a total value of over £24m. These investments were associated with over 560 new and safeguarded jobs.

Just over 38% of the value of investment in 2023/24Q2 was in mid and south west Wales, with almost 36% of investment value in south east Wales. North Wales accounted for approximately 26% of investment value.

The construction sector secured the highest value of Development Bank of Wales investments in 2023/24Q2, accounting for over £10.4m of investment.

The highest number of jobs created or safeguarded by Development Bank investments in 2023/24Q2 were in the manufacturing sector.

This 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 the 2023/24 financial year. The report includes commentary on the global and local economic context and conditions affecting the supply and demand for finance in Wales.

Sections 2-4 of this report provide the macroeconomic context within which Welsh SMEs operate and examines factors relating to the demand for, and supply and cost of, SME finance. Section 5 summarises the activities of the Development Bank of 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.

As highlighted in the already published Annual Report for 2022/23, Economic Intelligence Wales has expanded to include new academic partners, Bangor Business School and the Enterprise Research Centre. The expanded collaboration which now makes up Economic Intelligence Wales will publish a series of outputs during 2024 including reports on:

- A final evaluation on the impacts of Welsh Government Covid-19 financial interventions for businesses,
- R&D-intensive businesses in Wales,
- Assessing the availability of early-stage equity in Wales,
- Net zero carbon policies and SME initiatives towards decarbonisation.

- The International Monetary Fund's global growth forecast for 2024 was downgraded, by 0.1 of a percentage point, to 2.9%.
- The Bank of England maintained the Bank Rate at 5.25% in December 2023, noting that impacts from previous monetary policy decisions, to increase the rate, were still to come through in the economy.
- In 2023Q3 UK gross domestic product (GDP) was estimated to have shrunk by 0.1%, revised down from a first estimate of no growth. Figures for UK GDP in 2023Q2 showed no growth, revised down from the previous estimate of a 0.2% increase.
- Twelve-month Consumer Price Index (CPI) inflation in the UK was 4.0% in December 2023, up from 3.9% in November 2023.
- In Wales 61,400 people claimed unemployment-related benefits in December 2023. This was equal to 3.2% of the working age population. The comparative figure for the UK was 3.7%.

Global prospects

The International Monetary Fund's (IMF) World Economic Outlook¹ published in October 2023, noted that the global economy continued its gradual recovery from the cost-of-living crisis, the war in Ukraine, and the pandemic, showing "remarkable" resilience. Economic growth on a global basis had been checked somewhat but still continued in the face of energy and food market disturbances resulting from the war and tightening of global monetary policy to counteract relatively high inflation.

Given these factors, the IMF's latest projections were for global growth to slow from 3.5% in 2022 to 3.0% in 2023, and 2.9% in 2024, 0.1 of a percentage point lower for 2024 than the forecast in the IMF's July 2023 World Economic Outlook², and well below the historical average of 3.8% from 2000 to 2019.³ These projections

were broadly in line with the forecasts published in November 2023 in the OECD's Economic Outlook,⁴ where global growth was projected at 2.9% in 2023, a decrease to 2.7% in 2024, and an increase to 3.0% in 2025. The OECD noted that tight monetary policy to address inflation was taking effect but constrained financial conditions, weak trade and reduced confidence had subdued growth prospects in the global economy.

The IMF forecast for global inflation is for a steady fall from 8.7% in 2022, to 6.9% in 2023, and 5.8% in 2024, this mainly attributable to tighter monetary policy and lower international commodity prices.⁵ The IMF expectation for core inflation (excluding more volatile items such as food and energy) is for a more measured decline, with a return to target not achieved until 2025.

¹ <https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023>

² <https://www.imf.org/en/Publications/WEO/Issues/2023/07/10/world-economic-outlook-update-july-2023>

³ <https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023#statistical>

⁴ https://www.oecd-ilibrary.org/economics/oecd-economic-outlook_16097408

⁵ <https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023#statistical>

UK inflationary pressures

According to the ONS, the annual rate of producer output (factory gate) prices increased by 0.1% in the year to December 2023.⁶ This compares to a revised 0.1% fall in the year to November 2023. The largest upward contribution to the annual output inflation rate in December 2023 came from other outputs (which contributed 0.60 percentage points), food products (0.37 percentage points), and metals (0.35 percentage points). Chemicals and petroleum products had the largest downward contribution to the annual output inflation rate in the year to December 2023, with a negative contribution of 0.9% and 0.68 percentage points respectively.

Data from the ONS showed that twelve-month Consumer Price Index (CPI) inflation in the UK was 4.0% in December 2023, up from 3.9% in November 2023,⁷ and the first time the rate had increased since February 2023. The twelve-month CPI December 2023 was, however, still

considerably down from the recent high of 11.1% in October 2022. The largest upward contribution to the annual inflation rate for CPI in the year to December 2023 was from alcohol and tobacco.

Despite these latest inflation data presenting a surprising increase in inflation, generally commentators indicated they still expected interest rates to be cut in mid-2024, as energy prices are anticipated to fall further and drive down inflation.⁸

In December 2023, the Bank of England maintained the Bank Rate at 5.25%. The Monetary Policy Summary for December⁹ noted that with the labour market still tight: "...the degree to which wage and price setting would take account of the downward path of CPI inflation was not clear". Furthermore, it indicated that impacts of previous monetary policy decisions to increase the rate were still to unwind.

Priorities for the Welsh economy outlined

In November 2023 Economy Minister, Vaughan Gething, outlined priorities for the Welsh economy aimed at countering recent global disruptions and the impacts of high energy costs, high inflation and interest rates.¹⁰

These priorities included: a just transition and green prosperity; a platform for young people, fair work, skills and success; stronger partnerships for stronger regions and our everyday economy; and investing for growth.

⁶ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/december2023includingervicesoctobertodecember2023#out-put-producer-price-inflation>

⁷ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2023#latest-movements-in-cpi-inflation>

⁸ <https://www.bbc.co.uk/news/business-67993276>

⁹ <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/december-2023>

¹⁰ <https://www.gov.wales/economy-minister-sets-out-top-priorities-stronger-welsh-economy-built-all-us>

Welsh draft budget for 2024-25 reveals aim to protect health and frontline council-run services

Meanwhile, in December 2023 the Welsh Government published its draft budget¹¹ for 2024-25 with Finance Minister, Rebecca Evans, noting its aim of protecting the most-valued services. It included the announcement of an extra £450m for the National Health Service, and an increase in the core local government settlement (funding services such as schools and social care), of 3.1%. However, it was acknowledged that the overall budget would be worth £1.3bn less in real terms than when it was set in 2021 due to

relatively high inflation - this despite a planned 5% increase in business rates, and a reduction in the relief for retail, leisure, and hospitality sector enterprises (previously brought in to reduce the impacts during the pandemic) from 75% to 40%. It was also announced that the Welsh Government's manifesto pledge to create 125,000 new apprenticeship starts in Wales in this Senedd term, deferred earlier in 2023 by one year, has now been reduced to 110,000.¹²

UK GDP growth estimates for 2023Q3 show the UK economy at risk of recession

In 2023Q3 UK gross domestic product (GDP) was estimated to have shrunk by 0.1%, revised down from a first estimate of no growth. Furthermore, figures for UK GDP in 2023Q2 showed no growth, revised down from the previous estimate of a 0.2% increase.¹³ As well as putting pressure on the Bank of England to reduce the Bank rate of interest sooner to stimulate demand, these revisions brought concerns from commentators that the UK economy was falling into a recession,^{14,15} commonly defined as two consecutive quarters of contraction in GDP.

By sector, output in UK services fell by 0.2% in 2023Q3 (revised down from a first estimate fall of 0.1%). In 2023Q2 the services sector was estimated to have fallen by 0.1% (revised down from a first estimate of no growth). The largest negative contribution to the fall in total services in 2023Q3 was in the information and communication

sector (a decline of 1.4%), with the largest fall experienced in the telecommunications industry subsector. The largest positive contributions to output in services growth were in the education sector (an increase of 0.7%), public administration and defence (also increasing 0.7%), and arts, entertainment and recreation (an increase of 1.0%).

Output in production in the UK increased by 0.1% in 2023Q3 (revised up from the previous estimate of no growth). Growth in manufacturing; mining and quarrying; and electricity, gas, steam and air conditioning supply was to an extent offset by a decrease in water supply; sewerage, waste management and remediation activities. In 2023Q3 there were increases in manufacturing output in 7 of its 13 sub-sectors, with the major positive contribution arising from the manufacture of transport equipment.

¹¹ <https://businesswales.gov.wales/news-and-blog/a-budget-protect-most-valued-services>

¹² <https://www.business-live.co.uk/enterprise/welsh-government-abandons-new-apprentice-28319069>

¹³ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/julytoseptember2023>

¹⁴ <https://www.bbc.co.uk/news/business-67370315>

¹⁵ <https://www.theguardian.com/business/2022/nov/11/uk-heads-for-recession-as-economy-shrinks>

The Society of Motor Manufacturers and Traders (SMMT) reported a 14.8% increase in the production of cars in the UK, for the year to November 2023.¹⁶ Furthermore, the threat of tariffs on electric vehicles traded with the European Union has now been circumvented by the extension of current rules of origin until 2027.

Monthly GDP estimates show the UK economy expanded by 0.3% in November 2023,¹⁷ following a fall of 0.3% in October 2023. A major factor in the increase of services output in November 2023 was a rise in the contribution of the information and communication sector.

UK business investment decreased in 2023Q3

According to the ONS, UK business investment fell by 3.2% in 2023Q3, revised up from the provisional decrease of 4.2%.¹⁸ The major negative contribution to the decline in business investment growth was a decrease in transport - a sector where the ONS notes,

investment can be volatile due to the high value of some transport equipment. The upward revision of UK business investment was mainly attributed to a reduced fall in transport compared with the provisional estimate.

Announcement on the future of Tata Steel in the UK

In January 2024 it was announced by Tata Steel, the Indian conglomerate, that it was to cut 2,800 jobs in the UK steel industry, with the majority of these expected to be lost at its Port Talbot facility within the following 18 months.¹⁹ Tata revealed it was restructuring its steelmaking facilities in the UK in order to transform to greener production - cutting emissions by installing new electric arc furnaces that produce less CO₂ than the existing blast furnaces at Port Talbot, but are a less

labour-intensive method of steel production.²⁰ Concerns were voiced that, if the plan went ahead, there would be a requirement for the UK to rely on imports of certain types of steel that the proposed new furnaces could not produce, and that carbon emissions would just be offshored to other countries. An alternate plan from unions to keep one blast furnace operating until 2032 was rejected by Tata management who noted the Port Talbot site was losing around £1m per day.

¹⁶ <https://media.smmt.co.uk/november-2023-uk-car-manufacturing/>

¹⁷ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/november2023>

¹⁸ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/julytoseptember2023revisedresults>

¹⁹ <https://www.bbc.co.uk/news/uk-wales-68034598>

²⁰ <https://www.bbc.co.uk/news/uk-wales-66819458>

Job vacancies continue to fall in the UK

The number of UK job vacancies was 934,000 in the period October to December 2023, falling 49,000 from the previous quarter, (July to September 2023).²¹ Vacancy numbers for the UK decreased on the quarter for the 18th consecutive period, this representing the longest consecutive run of quarterly falls ever recorded. In October to December 2023, total vacancies were down by 226,000 from the level of a year ago, although they remained 133,000 above their pre-pandemic January to March 2020 level. The largest proportional decreases in vacancies in October to December 2023 from the previous quarter were in the industries of Arts, entertainment, and recreation (down 31.6%), and Transport and storage (decreasing 23.7%).

Early estimates from Pay as You Earn Real Time Information²² show a rise in the number of payroll employees in the UK for December 2023 to 30.2m, an increase of 306,000 employees (or 1.0%) over the figure for December 2022.

In the year to December 2023, the increase in payrolled employees in the UK was largest in the health and social work sector (an increase of 203,000 employees or 4.9%) and smallest

in the administrative and support services sector (a decrease of 27,000 or -1.1%).²³ A number of other sectors experienced a fall in payrolled employees between December 2022 and December 2023, with these including manufacturing, construction, wholesale and retail, transportation and storage, accommodation and food services, and information and technology. The percentage increases in payroll employees over the year was highest in energy production and supply (9.8% or 10,000 employees), and health and social work (as noted above, 4.9% or 203,000 employees).

In Wales the number of payrolled employees grew by 11,000 (or 0.8%) to 1.31m in the year to December 2023.²⁴ The UK regional data on payroll employees by sector is updated less frequently, but the data to October 2023 shows that the percentage increase in payroll employees over the year was highest in finance and insurance (6.8% or 2,500 employees).²⁵ Over the year to October 2023, there was an increase of 9,000 (or 4.2%) payrolled employees in the health and social work sector in Wales, and 2,100 (or 3.2%) in public administration, defence, and social security

²¹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/january2024>

²² <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/january2024>

²³ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

²⁴ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

²⁵ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted/current>

Quality issues relating to labour market data from the Labour Force Survey

Due to increased uncertainty in labour market data collected via the Labour Force Survey (LFS) estimates from May to July 2023, the latest LFS are not, at the time of writing, being released. The ONS have developed an alternative method for modelling the labour

market headline estimates of employment, unemployment, and economic inactivity – with these using administrative data for periods after April to June 2023.²⁶ This method for producing experimental headline estimates is intended to be required for a short interim period.

The unemployment rate remains stable in the UK and Wales

Using the ONS alternative method of estimation noted above, the UK unemployment rate for the three-month period to November 2023, seasonally adjusted, was an estimated 4.2%, the same rate as in the previous three-month period, June to August 2023.²⁷ The highest UK regional unemployment rates in the three-months to November 2023 were in London (5.3%), the

West Midlands (5.1%), and Wales (4.8%, the same as the previous three months), while the lowest rates were in Northern Ireland (2.7%), the South West (3.4%) and Yorkshire and The Humber (3.5%). There has been no update to the ONS redundancy rate figures published in the 2023/24Q1 Economic Intelligence Wales report.

An increase in the unemployment benefit claimant count in the UK but a small decrease in Wales

During the year to December 2023, the UK unemployment-related benefit claimant count (not seasonally adjusted) increased by 41,000 to 1.56m people.²⁸ In Wales 61,400 people claimed unemployment-related benefits in December 2023 (equal to 3.2% of the working age population, compared with a figure of 3.7% for the UK), a marginal decrease in the number of claimants compared with December 2022.²⁹

The Welsh unitary authority areas with the highest proportion of working age population claiming unemployment-related benefits, according to the data for December 2023, were Newport (4.5%), Blaenau Gwent (4.0%), Cardiff (3.8%), Torfaen (3.7%), and Conwy (3.7%), and those with the lowest proportions were Powys (2.2%), Monmouthshire (2.3%), Ceredigion (2.6%), Bridgend (2.7%), and Carmarthenshire, Flintshire, and Gwynedd (all 2.8%).

²⁶ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/usingadministrativedatatocreateheadlinefigures/2023-11-14>

²⁷ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/x10adjustedemploymentunemploymentandeconomicinactivity>

²⁸ <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/outofworkbenefits/datasets/claimantcountcla01>

²⁹ <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Unemployment/Claimant-Count/claimantcount-by-welshlocalareas-variable-month>

Economic inactivity falls slightly in the UK and remains stable in Wales

In the period September to November 2023, the UK economic inactivity rate, estimated using the ONS alternative methodology noted above, was 20.8%, very slightly below the

rate in June to August 2023 of 20.9%. The economic inactivity rate in Wales in September to November 2023 was 23.7%, the same as it had been in June to August 2023.³⁰

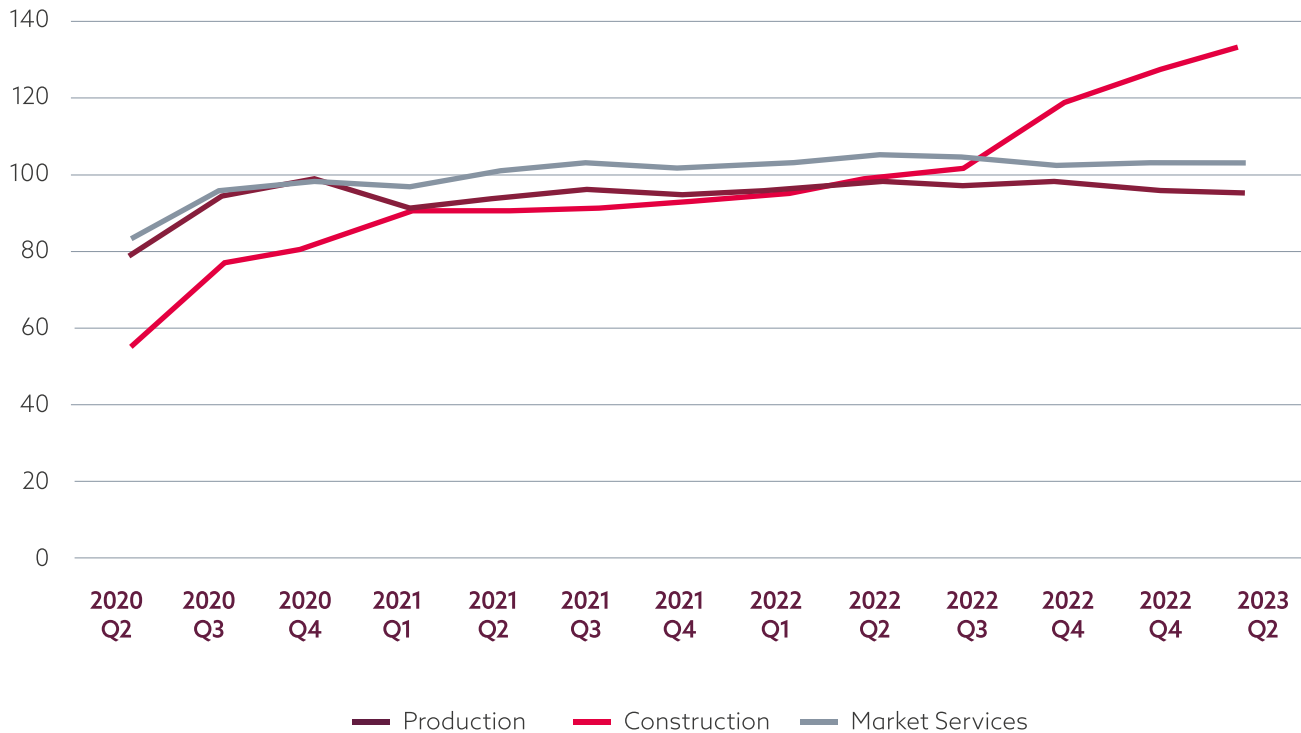
Growth in Welsh construction industry output from 2022Q4 to 2023Q2

Figure 2.1 reveals the trend in Welsh production, construction, and market service output indices from 2020Q2 to 2023Q2. The production index has not as yet recovered to pre-pandemic 2019 levels, and with the index declining in 2023Q2. The market services index remained slightly above the 2019 level, rising marginally in 2023Q2. For around nine consecutive quarters to 2023Q2 the Welsh indices of production and market services have stayed comparatively steady. In comparison, the construction index

for Wales has recorded strong growth for the most recent three quarters shown in Figure 2.1. The UK index of construction has however grown much more slowly, reaching a value of just 5% above 2019 levels by 2023Q2. Section 3 of this report suggests that 2023 was a difficult year for parts of the UK construction relating to property. It will be interesting to observe the full year of data for 2023 to help better understand the construction sector in Wales and the UK and the potential differences in performance.

³⁰ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/x10adjustedemploymentunemploymentandeconomicinactivity>

Figure 2.1.
Welsh output indices: trend 2020Q2 – 2023Q2 (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](#).

The value of goods exported from Wales increased in the year to 2023Q3

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 2023Q3 the trade in goods data for the UK regions show that there had been an increase in the value of exports from all UK countries, except Scotland, in the year ending September 2023 compared with the previous twelve months.³¹ The value of goods exported

from Wales increased by 2.0% to £19.9bn in the year ending September 2023 (compared with an increase of 2.7% in England, 17.9% in Northern Ireland, and a decrease of -0.3% in Scotland).

There were mixed fortunes in total export values by sector in Wales over the year to September 2023.³² The Welsh Machinery and Transport sector experienced a relatively high growth in the value of their exports increasing to £8.2bn in the year ending 2023Q3, from

³¹ <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-third-quarter-2023>

³² <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-third-quarter-2023/>

£7.2bn in the previous twelve months, an increase of 15.1%. Contrastingly, Mineral Fuels total exports fell to £3.8bn in the year ending 2023Q3, from £4.3bn in the previous twelve months, a decrease of 10.2%.

The total exporter count in Wales in 2023Q3 was 3,133 representing a fall of 3.6% from the figure in 2022Q3 (using the Whole Number Method³³). This compares to a drop of 2.7% for the UK as a whole in the same time period.³⁴ Trade volume data published by HM Revenue & Customs for the year to 2023Q3 showed that a net mass of 8.3 billion kilograms were exported from Wales, a decrease of 9.4% from the previous twelve months.³⁵

In the year to September 2023 the value of goods imported fell in Wales by 3.4% to £22.0bn when compared to the previous twelve months.³⁶ This compared to increases in the value of imports in England of 1.0%, a rise in Northern Ireland of 6.0%, and a decrease of 8.3% in Scotland.

The total importer count in Wales in 2023Q3 was 8,860, an increase of 15.1% from the figure in 2022 Q3. In the UK the total importer count remained static over the same period. Trade volume data published by HM Revenue & Customs, for the year to 2023Q3, showed that a net mass of 17.7 billion kilograms were imported into Wales, a decrease of 14.2% from the previous year to the end of 2022Q3.³⁷

UK economy forecasts

A comparison of independent forecasts received between the 1st and the 12th of January 2024 were published in the January 2024 HM Treasury Forecasts for the UK Economy.³⁸ The average forecast for UK GDP growth in 2023 was 0.4%, the same figure as that

projected in the December 2023 publication. The average forecast for GDP growth in 2024 remained at 0.4%, the same figure as the forecast made in December 2023. Appendix 2 of this report shows a summary of selected GDP forecasts for the UK for 2023 and 2024.

³³ "Whole number method": A business counts as 1 in each region they have employees.

³⁴ <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-third-quarter-2023/>

³⁵ <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

³⁶ <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-third-quarter-2023/>

³⁷ <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

³⁸ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-january-2024>

- Small business confidence registered its sixth successive negative quarterly reading.
- The domestic economy continued to remain the top concern for small businesses as a barrier to growth.
- Business deaths in Wales continue to exceed business births.
- The Bank of England expects that housing investment, largely comprising of new build spend, will have fallen in 2023, and will continue to fall in 2024 and 2025.

Budget highlights

The UK Autumn Statement brought some welcome news for small firms and the self-employed. This included a reduction in Class 4 National Insurance Contributions for those in self-employment with profits between £12,570 and £50,270, an extension of business rates relief for firms in the retail and hospitality sector,

and late payment to SME reforms. Perhaps more importantly for higher growth small businesses has been the decision to make full capital expensing a permanent feature. Previous quarterly reports have hinted at the number of Welsh firms that have been concerned about levels of taxation and hindrances to investment.

Business population in 2023

There were an estimated 253,395 active SMEs in Wales in 2022, of these, 241,710 were micro businesses employing fewer than nine people.³⁹ Provisional figures for 2023 suggest that the total number of SMEs fell by around 3% to 246,375, and with much of this loss (a little over 7,000) being in terms of micro enterprises. The three largest SME sectors in Wales, based on the number of enterprises, were: wholesale, retail,

transport, hotel, food, and communication sector; the financial and business services sector; and the construction sector. The total number of enterprises in Wales has been in a steady decline in the period 2021-23. Over this period the total number of enterprises (including large enterprises) has fallen from a little under 264,000 to around 248,000.

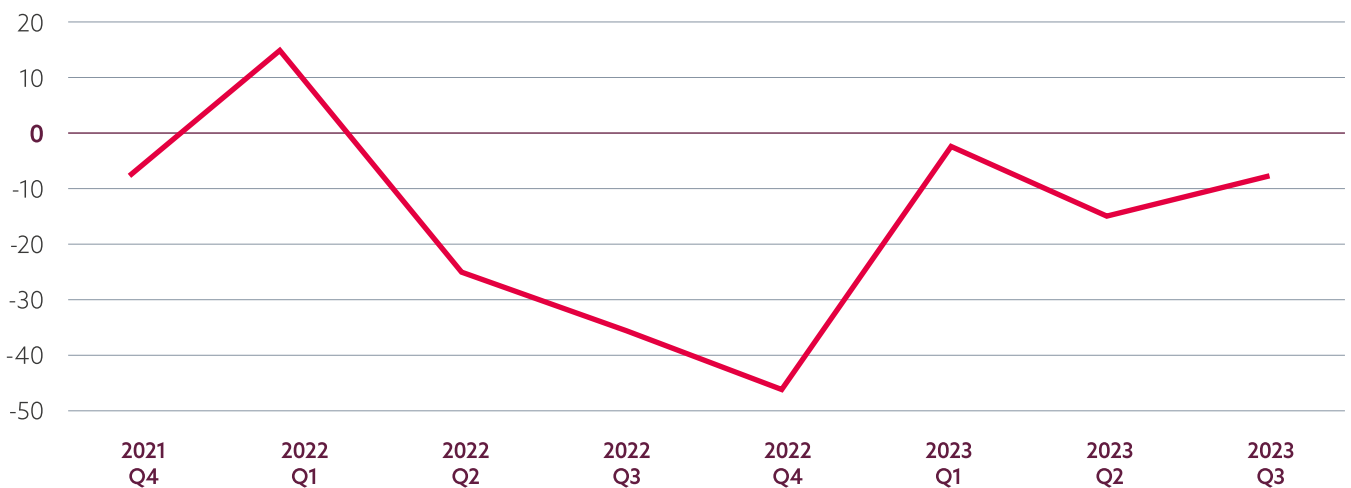
³⁹ <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/enterprises-by-sizeband-area-year>

Small business confidence still in negative territory

The Federation of Small Businesses (FSB) UK Small Business Index (SBI)⁴⁰ of small business confidence registered its sixth successive negative quarterly reading in 2023Q3 of -8.0 points.⁴¹ This nevertheless represented an improvement on the 2023Q2 index of -14.2. Figure 3.1 shows the trend of the FSB SBI between 2022Q2 and 2023Q3. The SBI 2023Q3 report suggests that the number of small

businesses reporting a decrease in revenue over the previous three months outweighed those reporting revenue growth. The net balance was -5.9 points in 2023Q3, the sixth consecutive negative quarterly reading. Whilst two of the UK regions (London and the North West) registered a positive regional SBI in 2023 Q3, the other five regions for which data is available, remained firmly in the negative.⁴²

Figure 3.1.
UK Small Business Confidence Index, 2021Q4–2023Q3



Source: FSB Small Business Index, 2023Q3⁴³

⁴⁰ The FSB explains that: '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.'

⁴¹ <https://www.fsb.org.uk/resource-report/small-business-index-quarter-3-2023.html>

⁴² The index does not include Wales and Northern Ireland, as the FSB reports: 'Sample sizes for Wales and Northern Ireland are insufficient for accurate reporting' In addition, 'The North East is combined with Yorkshire and the Humber to produce a combined region, due to low sample sizes for the former region.'

⁴³ FSB Small Business Index, Q3 2023 op. cit.

Large differences in sectoral confidence persisted in 2023Q3. The business confidence index in the Accommodation and Food services sector experienced a small improvement from the previous quarter; it nevertheless remained very weak at -31.1 points. The Wholesale and Retail sector remained the second weakest in 2023Q3 with an SBI index value of -22.8, which also represented an improvement on the rate reported in 2023Q2 (-37.8 points). Business confidence in Manufacturing and Construction also recorded negative index values of -6.7 and -7.7 respectively in 2023Q3. Although Professional, Scientific, and Technical activities was again the only major sector with a positive index, 6.9 in 2023Q3, it nevertheless continued to experience the decline in confidence it has seen during 2023.

As with previous SBI quarterly reports, the domestic economy continued to be the top concern for small businesses as a potential barrier to growth, cited by 63.5% of SMEs in 2023Q3 (slightly higher than the 61% recorded in 2023Q2). Similarly, consumer demand was the second highest factor cited by 33.3% of small businesses (although this represented a slight reduction on the 36% of businesses in Q2). Access to appropriately skilled staff, labour costs, tax burdens, input costs, and fuel costs, were the next frequently cited barriers to potential business growth.

In its own Business Confidence Monitor (BCM), the professional body, the Institute of Chartered Accountants in England and Wales⁴⁴ (ICAEW), indicated that during 2023Q3, UK business confidence experienced a further slight decline on 2023Q2⁴⁴, meaning that in this survey business confidence also remains

low (although in positive figures). It was found to be particularly low in Construction (-30.5) and Property (-5.4). Moreover, annual growth in domestic sales eased further during Q3, although export performance stabilised. While privately owned companies saw stronger domestic and export sales than UK-listed companies, late payments were a significant issue for them, whilst SMEs commonly cited their tax burden as a major issue. Business confidence amongst SMEs in this survey stood at 1.8 (this represented a 3 point decline from Q2). Across the UK, businesses in the North West were most confident during 2023Q3, and whereas confidence in most other English regions and Scotland was marginally positive, confidence in East of England, South West, South East, and Wales was negative (all around -3).

The SME Finance Monitor 2023Q3⁴⁵ reported that 27% of all responding UK SMEs (excluding starts) experienced growth over the last 12 months. Broken down by SME size, 45% of businesses employing 50-249 employees, 47% of those employing 10-49, 35% employing 1-9, and 24% of those with no employees experienced growth in the last 12 months. The current economic climate was cited as the key barrier to SME growth in this survey (35%), a notable rise since the start of the year (when it stood at 30%). Political uncertainty (21%) and cash flow or issues with late payment (14%) were also concerns raised by SME respondents to this survey. In addition, 40% of SME respondents said they had been 'significantly impacted' and an additional 35% 'somewhat impacted' by increasing costs during 2023Q3. There is every prospect during 2024 that these cost pressures on businesses will decline in line with falling headline inflation rates.

⁴⁴ ICAEW explains: 'the survey results are based on 1,000 telephone interviews among ICAEW Chartered Accountants covering a range of UK sectors, regions and company sizes, ensuring a representative picture of the UK economy'. <https://www.icaew.com/technical/economy/business-confidence-monitor/business-confidence-monitor-national>

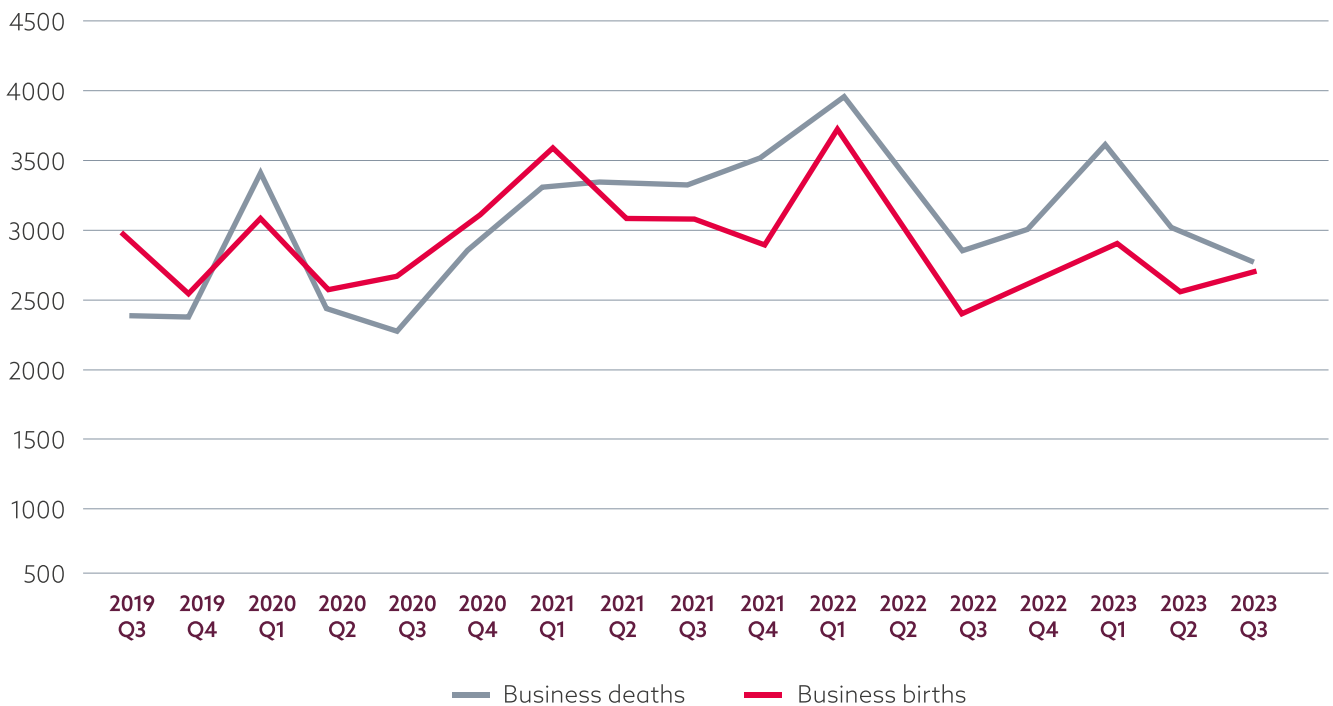
⁴⁵ <https://www.bva-bdrc.com/wp-content/uploads/2023/11/SME-Monthly-Charts-Sept-2023.pdf>

Business deaths in Wales exceeded the number of business births

The ONS reported an estimated total of 78,655 UK business births during 2023Q3; this was a 15% increase on 2022Q3.⁴⁶ The ONS also reported that the number of UK business deaths in 2023Q3 was 69,445, which was 14% lower than the same quarter in the previous year. In 2023Q3, therefore, the number of business births exceeded deaths across the UK. Figure 3.2 reveals the variation of quarterly business

births and deaths in Wales over the past 17 quarters. The number of business births in Wales in 2023Q3 was 2,655, whilst the number of business deaths in Wales during the same period was 2,715. The number of deaths in Wales, therefore, continues to be greater than business births as it has done since 2021Q2, although the gap has noticeably narrowed.

Figure 3.2.
Quarterly Business Demography in Wales, 2019Q3 - 2023Q3



Source: ONS Business Demography, Quarterly Experimental Statistics, UK⁴⁷

⁴⁶ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/julytoseptember2023>

⁴⁷ ONS, *ibid.*

Business impacts and conditions survey

The ONS Business Impacts and Conditions Survey (BICS) for 27th November to 10th December 2023 (Wave 97)⁴⁸ reported that 19.9% of Welsh businesses surveyed experienced a sales increase compared to the previous month and with 21% reporting a decrease on the previous month. Some 24.1% of surveyed businesses in Wales expected sales to increase in January 2024 against a UK average of 16.8%. Importantly the BICS reveals some reduction in costs and price pressures. Just 6.9% of surveyed businesses in Wales reported that the prices of goods and services had increased when compared with the previous month, and with 12.3% of surveyed businesses in Wales reporting that the prices they had paid for goods and services had increased in the

previous month. Some 15.5% of Welsh firms were able to report that they expected their employment to increase in January 2024 (UK 15.1%), and with just 6.2% believing they were at moderate risk of insolvency (UK 7.3%).

Compared to the same period in 2022 some 24.6% of Welsh businesses believed their performance had increased (UK 24.1%) and with 17.8% believing it had decreased (UK 18.5%). In terms of expectations for 2024, 39.5% of Welsh businesses expected their performance would increase in 2024 (UK 35.6%). A higher proportion of surveyed businesses in Wales were expecting an increase in performance compared to each other part of the UK except Yorkshire-Humberside.

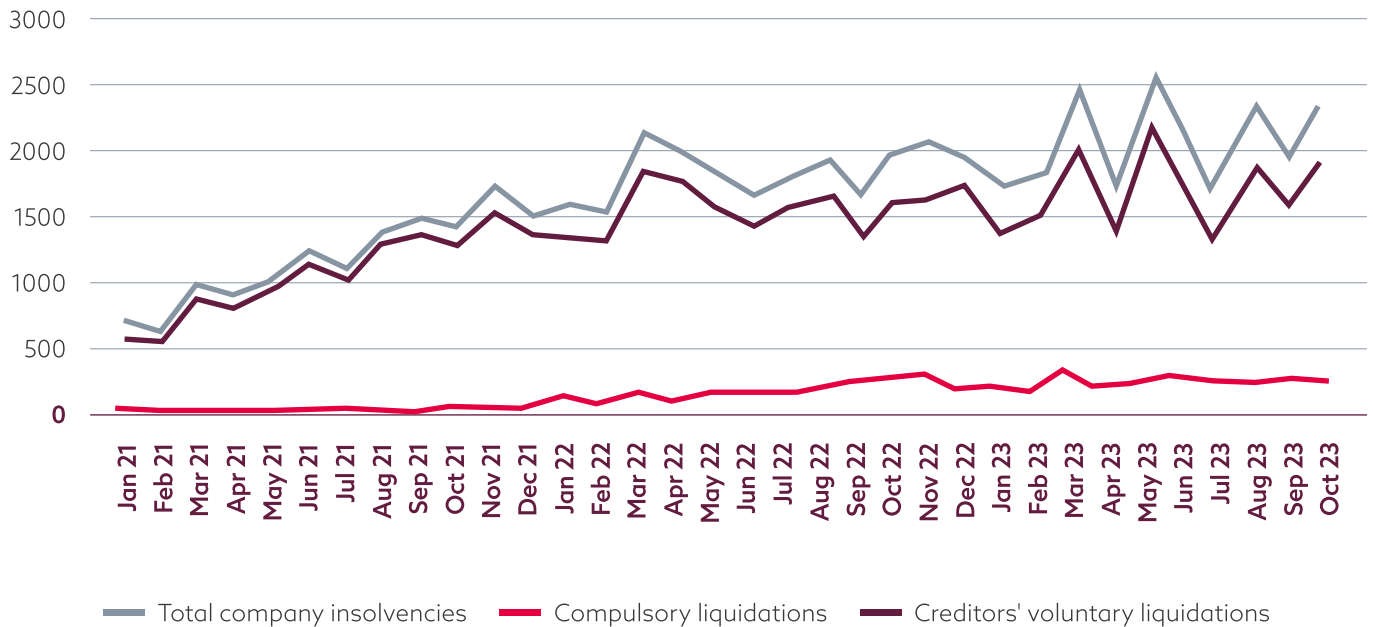
Business insolvencies

Figure 3.3 shows the trend of registered company insolvencies in England and Wales from January 2021 to October 2023. The number of insolvencies has continued to fluctuate significantly throughout 2023. The total monthly insolvencies in October 2023 have again begun

to rise and have reached 2,315. This overall rate has continued to be driven mainly by creditors' voluntary liquidations, which stood at 1,889 in October 2023, whilst the number of compulsory liquidations were 256 during the same month.

⁴⁸ <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

Figure 3.3.
Monthly Registered Company Insolvencies, England and Wales, January 2021 – October 2023



Source: UK Government Insolvency Monthly Statistics⁴⁹

As previously indicated, County Court judgments for debt can partially help predict future insolvencies when taken as part of a wider trend. Compared with 2022Q3, county court judgements were up 15% to 448,000 in 2023Q3, and 82% of these were based on money claims

(a 16% increase). The number of money claims in every category rose in 2023Q3 compared with 2022Q3, with money claims valued under £500 and between £1,000 and £3,000 increasing the most (11% and 20% respectively).⁵⁰

Housing and commercial property

A key element of Development Bank activity links through to property investment (see section 5). This quarterly report highlights some recent

information relating to factors affecting demand for finance to support property investments.

⁴⁹ <https://www.gov.uk/government/collections/monthly-insolvency-statistics>

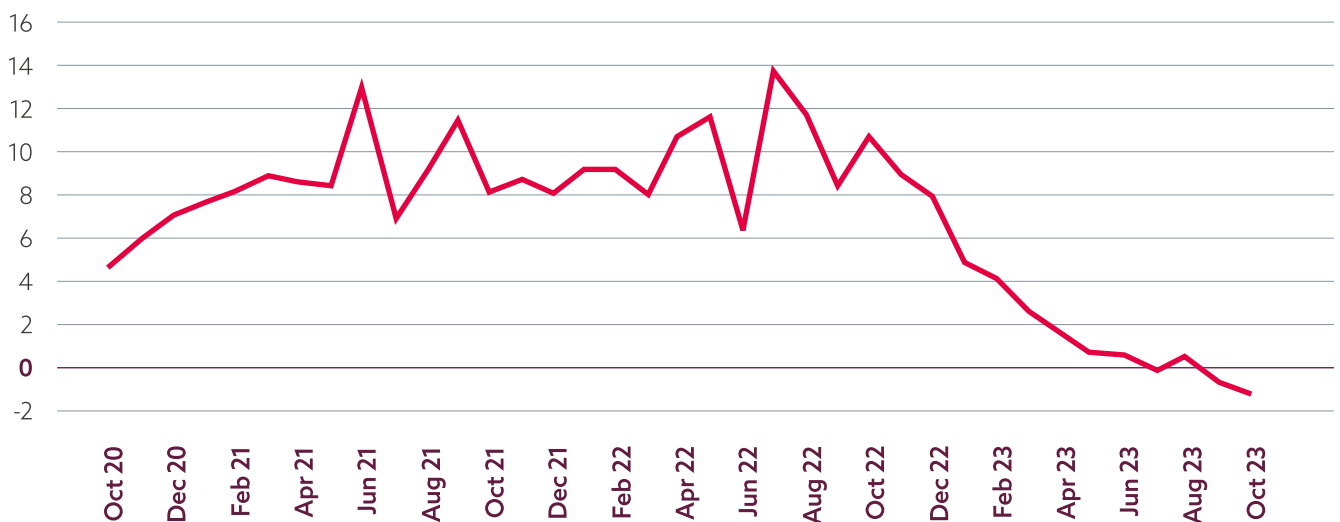
⁵⁰ <https://www.gov.uk/government/statistics/civil-justice-statistics-quarterly-july-to-september-2023/civil-justice-statistics-quarterly-july-to-september-2023>

House prices continue to decline in 2023

The latest ONS data, which captures both cash and mortgage-based purchases, shows that UK house prices fell by 1.2% in the 12 months to October 2023.⁵¹ The average UK house price in October 2023 was £288,000,

which was £3,000 lower than 12 months previously. The average house price in Wales in October 2023 was £214,000, representing a 3% decrease from October 2022.

Figure 3.4.
ONS House Price Index, October 2020-October 2023



Source: ONS House Price Index⁵²

Although mortgage rates have recently begun to edge down as investors now expect the Bank of England to cut the benchmark rate sooner than previously expected, Nationwide is predicting that prices will fall by a similar level or at best stagnate during 2024.⁵³ Halifax is predicting an even steeper decline of between 2% and 4% during 2024.⁵⁴

The total number of transactions during 2023 was around 10% lower than pre-pandemic levels, whilst those involving a mortgage were around 20% lower.⁵⁵ Meanwhile, UK Finance has estimated that another 1.6 million homeowners will need to remortgage during 2024 when their current fixed-term rates agreed prior to the Bank of England rate rises of 2023 come

⁵¹ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/october2023>

⁵² ONS (October 2023) Ibid.

⁵³ <https://www.nationwidehousepriceindex.co.uk/reports/house-prices-fall-1-8-percent-over-the-course-of-2023>

⁵⁴ <https://www.halifax.co.uk/media-centre/house-price-index.html>

⁵⁵ Nationwide (December 2023) Op cit.

to an end.⁵⁶ With no significant reductions in rates expected prior to the end of 2024 many

more households are expected to experience significantly increased housing costs.

A slowdown in UK house building activity during 2023

The Bank of England expects that housing investment, largely comprising of new build spend, will have fallen by 5.75% in 2023, and to fall by 6.75% 2024, and 2.75% in 2025.⁵⁷ The Royal Institution of Chartered Surveys assessed that UK housebuilding construction in the three months to September 2023 is likely to have experienced its lowest levels since the start of the pandemic.⁵⁸ Meanwhile, the S&P Global/CIPS UK construction purchasing managers index continued to fall during the last few months of 2023, driven in large part by a significant slowdown in housebuilding activity.⁵⁹

Taylor Wimpey provided an optimistic update on its annual profits in November 2023,

following a similarly positive message from Persimmon, that indicated a strong 'pick up' in home sales in October. However, it is generally expected that stabilisation and recovery in housebuilding during 2024 will be slow.⁶⁰ The sector does not appear to expect a significant improvement during 2024. Some of the largest developers are cutting volume during their current financial years by as much as a quarter. These fears appear to be being fuelled by expectations that Bank of England rates are unlikely to fall significantly in the medium term, as well as other factors, such as the ending of the Help to Buy scheme in England (although it continues until 2025 in Wales).⁶¹

UK commercial property values declined in 2023

Commercial property values had a similarly difficult year during 2023, experiencing significant reductions, as higher interest rates also impacted the commercial market.⁶² Reflecting concerns about rising debt costs and, perhaps, concerns about empty post-pandemic offices as people continue to work from home for much of their working week, investments in UK property funds have been diminishing. Redemptions from UK property funds over 2023 were high, with about £1.4 billion leaving the market during this period.⁶³

Land Securities, one of the largest UK commercial landlords, has reported that the value of its £10 billion portfolio declined by 3.6% in the six months to September 2023 as a result of rising interest rates. It did, however, predict that commercial property investment would improve during 2024.⁶⁴ Nevertheless, the market for large offices and shopping centres continues to be badly affected, and significant improvement in 2024 seems unlikely.⁶⁵

⁵⁶ <https://www.ukfinance.org.uk/news-and-insight/blog/2024-choosing-right-product-transfer>

⁵⁷ Bank of England (November 2023) Monetary Policy Report, p.14. <https://www.bankofengland.co.uk/monetary-policy-report/2023/november-2023>

⁵⁸ Financial Times (2.11.23) UK housebuilding at its weakest since start of pandemic say surveyors. <https://www.ft.com/content/813f596c-1a94-48ca-8699-00730928f3b5>

⁵⁹ Financial Times (6.12.23) UK construction activity contracts for third month in a row. <https://www.ft.com/content/e2421e22-c6b3-47ae-b527-0a09a59927fa>

⁶⁰ Financial Times (9.11.23) 'Taylor Wimpey's profit update suggests worst is over for housing sector'. <https://www.ft.com/content/3a6484f2-452c-437c-88a3-009db326f8dd>

⁶¹ Building (20.11.23) 'UK housebuilding recession: How much worse is it going to get?'. <https://www.building.co.uk/focus/uk-housebuilding-recession-how-much-worse-is-it-going-to-get/5126399.article>

⁶² Financial Times (16.11.23) 'Great Portland buys more London property than it sells for first time in decade'. <https://www.ft.com/content/d14d3c4b-7f00-49d4-be74-83afa5e798b2>

⁶³ Financial Times (27.10.23) 'How investors lost their love for UK property funds'. <https://www.ft.com/content/99b8f61a-ae45-4961-8513-83fd3e6ee967>

⁶⁴ Financial Times (14.11.23) 'Landsec predicts buying opportunities in commercial property'. <https://www.ft.com/content/c82d0149-67d7-442f-891d-abf64e1ecc21>

⁶⁵ Financial Times (27.10.23) Op. cit.

- The proportion of UK SMEs using external finance increased in 2023Q3.
- Upward trends in the use of credit cards and overdrafts have continued.
- There was a small decrease on the average interest rate on SME loans in September 2023.

Supply and demand for business lending

The Bank of England quarterly Credit Conditions Survey of banks and building society lenders explores trends and developments in UK credit conditions. The 2023Q3 survey asked lenders to report their perceived changes in both supply and demand sides of credit conditions for the three months to August 2023, relative to the three months to May 2023, and then expected changes to November 2023.

Lenders reported that the availability of credit (defined as willingness and ability to supply credit) to the corporate sector remained unchanged in 2023Q3. Whilst small business credit availability increased marginally, credit to medium and large business remained unchanged. Overall availability was expected to remain unchanged in 2023Q4. Meanwhile, lenders also reported that demand from small

businesses remained unchanged, whilst demand from medium and large businesses decreased. Looking forward, demand for small and medium business lending was expected to decrease slightly in 2023Q4, whilst demand from large businesses is expected to remain unchanged.

Lenders also reported that default rates on small business lending decreased slightly during 2023Q3, whilst it remained unchanged for medium and large businesses. Looking forward, default rates were expected to increase in 2023Q4 for small businesses, increase slightly for medium sized businesses, and remain unchanged for large businesses. Meanwhile, losses in the event of default showed no significant change for businesses of all sizes in 2023Q3.⁶⁶

An increase in the proportion of UK SMEs using external finance

The SME Finance Monitor⁶⁷ found that 50% of UK SMEs had used external finance during 2023Q3. This is an increase compared to the start of 2023, when it stood at 41%. This has been due to increased use of 'traditional' finance and a better understanding of pandemic funding still to be repaid. Similarly, upward trends during 2023 in the use of credit cards and overdrafts, which are now the most

popular forms of finance, continued during 2023Q3. Credit cards accounted for 20% and overdrafts 17% of SME finance during Q3, with leasing (11%), bank loan/mortgage (10%), and grants (4%). The number of SMEs injecting personal funds into their business in 2023Q3 remained at 36%, and 23% of these businesses believed they had no choice in doing so.

⁶⁶ <https://www.bankofengland.co.uk/credit-conditions-survey/2023/2023-q3>

⁶⁷ <https://www.bva-bdrc.com/wp-content/uploads/2023/11/SME-Monthly-Charts-Sept-2023.pdf>

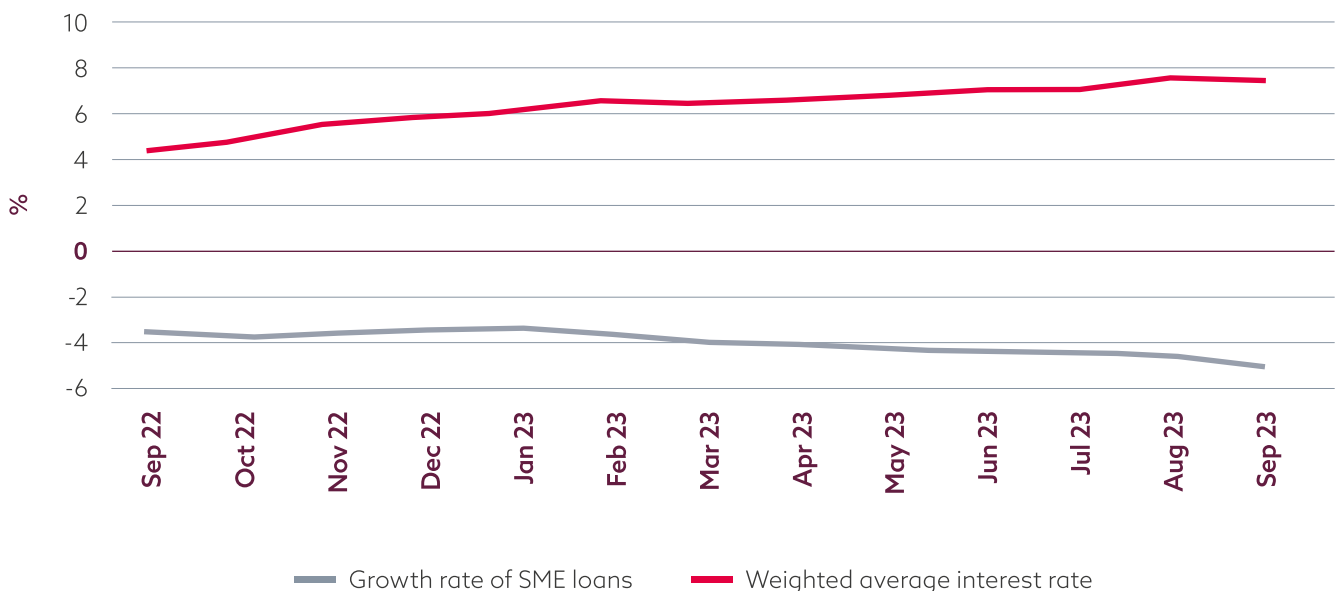
The average interest rate on SME loans reduced slightly in September 2023

Figure 4.1 shows the monthly growth rate of SME loans and the weighted interest rate based on Bank of England data.⁶⁸ The growth rate of SME loans was -5% in September 2023 continuing the trend for decreasing loans to SMEs over the past 12 months (as well as over the longer-term from September 2021).

Meanwhile, the average interest rate on SME loans increased for the 23rd consecutive month, from 2.65% in October 2021 to 7.65% in August 2023, a new record-high for the past decade. In September 2023 there was, however, a small decrease of 0.06% on the average interest rate on SME loans on the previous month.

Figure 4.1.

Growth Rate of SME Loans and Interest Rate on SME Loans, September 2022 – September 2023



Source: Bank of England⁶⁹

The Bank of England maintained its rates at 5.25% for the October to December period. There is some prospect that interest rates to businesses will fall slightly in 2024 in line with lower inflation expectations. A 1 percentage point reduction in the Bank rate

is expected by some forecasting groups, with expected rates in a range of 3.75% to 4.25% in one year's time.⁷⁰ However, the Bank of England has itself suggested that the current base rate of interest could be held near the current level for the next three quarters.

⁶⁸ 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 <https://edu.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NlxAZxSUx&FromSeries=1&ToSeries=50&DAT=RNG&FD=1&FM=Jan&FY=2010&TD=11&TM=May&TY=2025&FNY=Y&CSVF=IT&html.x=66&html.y=26&SeriesCodes=CFMZ6LD&UsingCodes=Y&Filter=N&title=CFMZ6LD&VPD=Y>

⁶⁹ Bank of England, Money and Credit, September 2023 <https://www.bankofengland.co.uk/statistics/money-and-credit/2023/september-2023>

⁷⁰ <https://www.telegraph.co.uk/business/2023/12/13/ftse-100-markets-latest-news-gdp-us-interest-rates-live/>

As reported previously, the most recently available UK Finance SME Lending within UK Postcodes data⁷¹ was included in the Economic Intelligence Wales Annual report 2022/23. This data showed a substantial reduction in lending to Welsh SMEs during 2022, with the overall

lending volume decreasing from £20.04bn in 2021 to £8.88bn in 2022. Across Wales, the Swansea postcode area received the most SME lending in 2022, and this was followed by Cardiff and Llandudno postcode areas.

Equity investments

Equity investments in businesses typically derive from a range sources, including venture capital funds, business angels, crowd funders, corporate investors, or Government funds, and such ventures can take place at different stages of business development.⁷²

The latest British Business Bank/Beauhurst Small Business Equity Tracker⁷³ found that across the UK the decline in SME equity finance experienced during the second half of 2022 continued into 2023. The Equity Tracker found that there were 2,702 announced UK equity deals during 2022 (compared with 2,912 in 2021), with a value of £16.7bn (£18.8bn in 2021). Although most nations

and regions of the UK experienced fewer deals in 2022 than in 2021, Wales, Yorkshire and the Humber, and the South West bucked this trend. As shown in Figure 4.2, the number of deals does not necessarily correspond with the value of deals. Although Wales, for example, experienced the highest percentage increase in the number of deals announced between 2021 and 2022, with a 19% increase, to 70 deals, the total value of those deals reduced by 10% to £82m. Most UK equity deals are in London, which accounted for around 50% of the number of UK deals and 65% of the UK equity investment value in 2022.

⁷¹ UK Finance, SME Lending within UK Postcodes, H2 2022 <https://www.ukfinance.org.uk/data-and-research/data/sme-lending-within-uk-postcodes>

⁷² [https://developmentbank.wales/sites/default/files/2019-04/Equity Clusters Report_final.pdf](https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report%20final.pdf)

⁷³ British Business Bank/Beauhurst (2023). Small Business Equity Tracker. <https://www.british-business-bank.co.uk/small-business-equity-tracker-2023/>

Figure 4.2.

Number and value of announced SME equity deals by nation and English region, percentage change 2021-2022

	Number of Deals % Change 2022 vs 2021	Investment Value % Change 2022 vs 2021
London	-5	-12
South East	-20	3
Scotland	-22	37
East of England	-6	-15
North West	-7	-22
South West	4	-32
Yorkshire and The Humber	4	48
North East	-16	-60
West Midlands	-10	-22
Wales	19	-10
East Midlands	-3	-37
Northern Ireland	-17	39

Source: British Business Bank/Beauhurst⁷⁴

The latest 2023 (Q3) data⁷⁵ shows that the UK continued to experience an equity funding downturn. Indeed, 2023Q3 had the lowest number of completed deals since 2018Q3. While the number of deals is down, the

value of deals in 2023Q3 was higher than 2023Q1. This, so the report suggested, might indicate that across the UK, investors may be focusing on fewer, but larger investments.

⁷⁴ British Business Bank/Beauhurst (2023). Ibid.

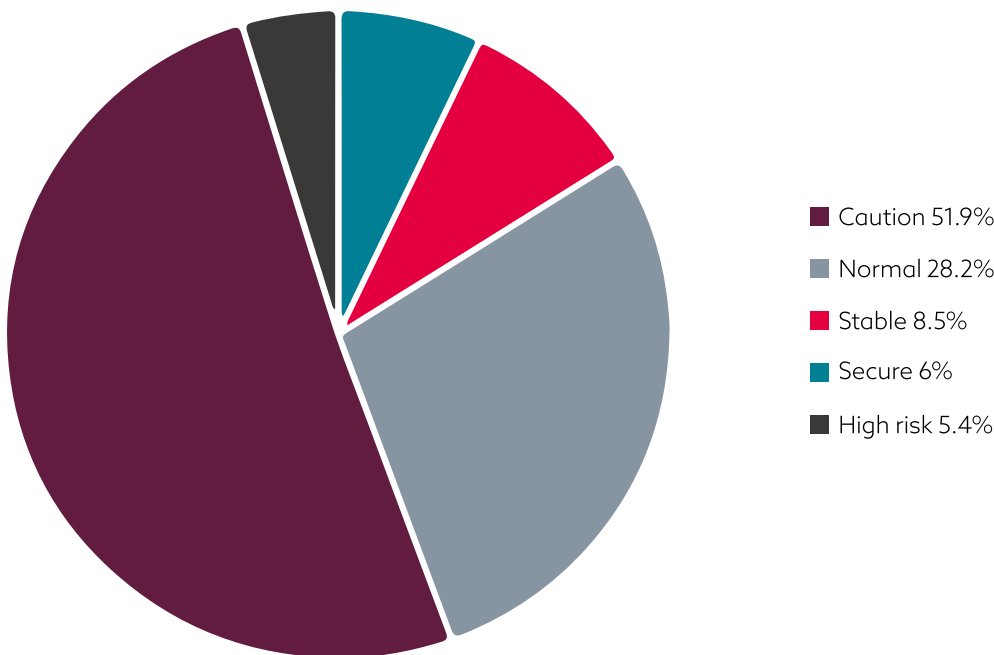
⁷⁵ Beauhurst (Q3 2023). Equity Investment Market Update. <https://www.beauhurst.com/research/equity-investment-market-update-q3-2023/>

A reduction in the proportion of SMEs in Wales in the High-risk credit rating category

The Bureau van Dijk FAME database of Companies House data was searched in December 2023 to seek evidence of the proportion of Welsh SMEs that fell into different credit risk categories. The December 2023 search yielded 91,069 SMEs with a known credit rating (a very slight decrease in firms with a credit rating since the September 2023 search). It is important to recognise that this source may not identify Wales' smallest firms. Figure 4.3 reveals that of this total, 5.4% of SMEs in Wales were estimated to be in the highest risk credit rating category, down from around 5.8% in September 2023. The Caution category

comprised over 47,000 SMEs or 52% of the total. These proportions are quite slow to change and with updates to credit rating coming at different intervals according to when new data is uploaded on the FAME database. However, the reduction in the proportion of enterprises in the High-risk category is encouraging, particularly in the context of concerns expressed in previous Economic Intelligence Wales quarterly reports about rising trends in insolvencies. Also encouraging in the December figures, compared to those for September, was a 0.5 percentage point increase in the proportion of firms in the Normal credit risk category.

Figure 4.2.
Percentages of Welsh SMEs in different credit risk categories, December 2023



Source: FAME Database

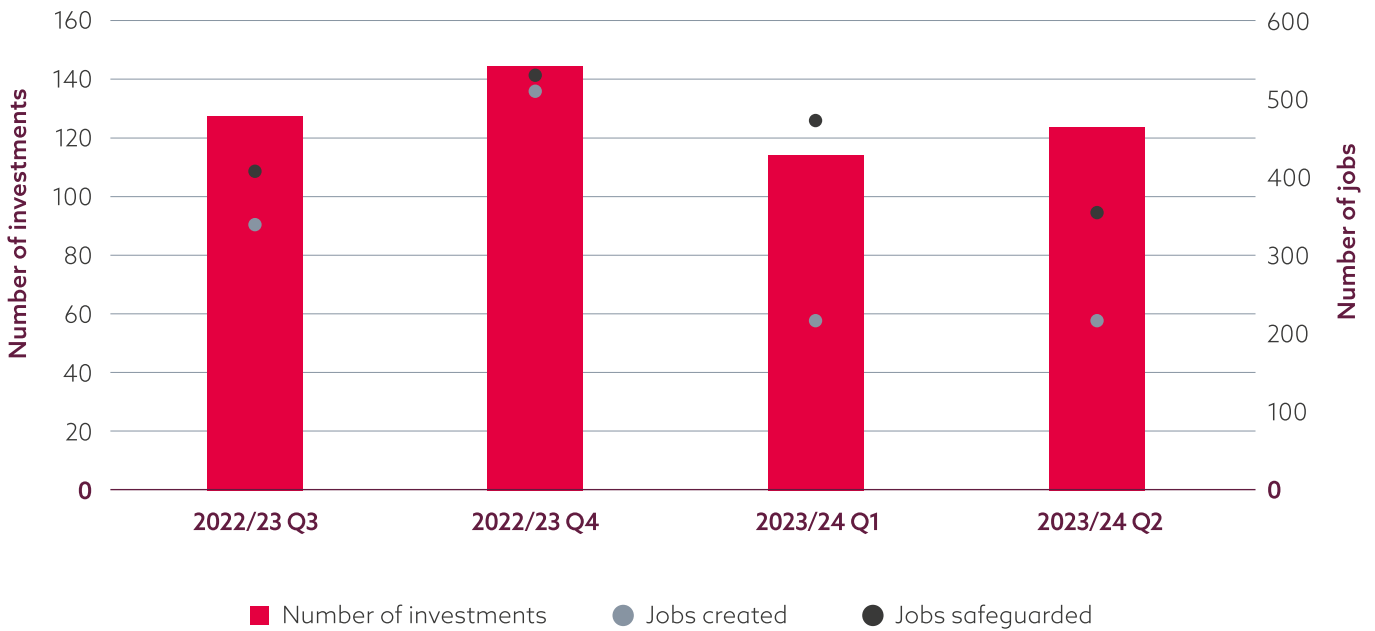
- In 2023/24Q2 the Development Bank of Wales completed 123 investments, with a total value of over £24m. These investments were associated with over 560 new and safeguarded jobs.
- Just over 38% of the value of investment in 2023/24Q2 was in mid and south west Wales, with almost 36% of investment value in south east Wales. North Wales accounted for approximately 26% of investment value.
- The construction sector secured the highest value of Development Bank of Wales investments in 2023/24Q2, accounting for over £10.4m of investment.
- The highest number of jobs created or safeguarded by Development Bank investments in 2023/24Q2 were in the manufacturing sector.

The Development Bank completed 123 investments in 2023/24Q2, supporting more than 560 jobs

Figure 5.1 shows a small quarterly upturn in the number of investments made by the Development Bank of Wales in the second quarter of 2023/24. The number of investments in 2023/24Q2 was consistent with the second quarter of the previous year (122 investments in 2022/23Q2). Whilst the number of new jobs created by Development Bank investments

in 2023/24Q2 (almost 210 jobs) is consistent with the previous quarter, the number of jobs safeguarded in 2023/24Q2 is below that of the previous quarter. In all, over 560 jobs (new and safeguarded) were supported by Development Bank investments in 2023/24Q2 compared with over 680 jobs supported in the previous quarter.

Figure 5.1.
Investments and jobs created and safeguarded, 2022/23Q3 – 2023/24Q2



The total value of investments made during 2023/24Q2 was £24.4m

Figure 5.2 shows that the total value of investments in the second quarter of the 2023/24 financial year was below the previous quarters. New debt and equity investment in 2023/24Q2 was £16.5m, with a further almost £8m of property development investment.

Equity investment had fallen from a high of £10.7m in 2022/23Q3, to £7.2m in 2022/23Q4, and to £2.3m in the first quarter of 2023/4. However, in the second quarter of 2023/24 equity investment increased to £3.8m.

Figure 5.2.
New Investment by investment type, £m, 2022/23Q3 - 2023/24Q2

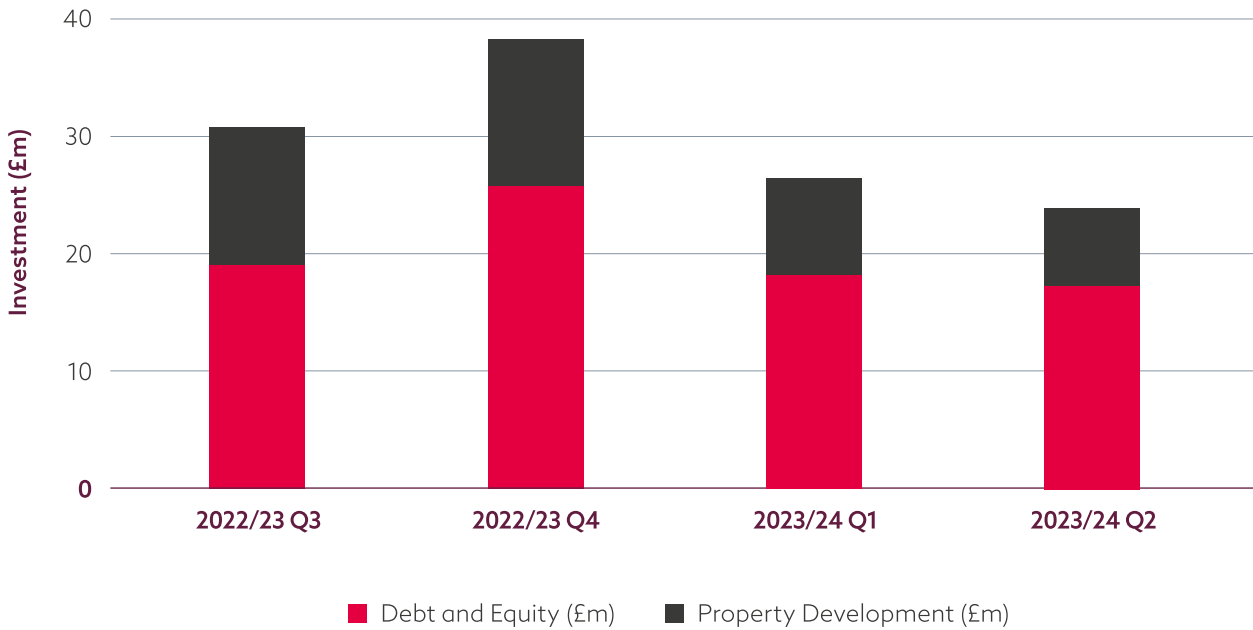


Figure 5.3 shows businesses in mid and south west Wales received around £9.3m of investment funds, while firms in south east Wales received around £8.7m of investment funds. Firms in north Wales received almost £6.4m of investment funds in 2023/24Q2. The south east Wales region has the largest concentration of businesses in Wales, accounting for around 46% of the business population. This region usually receives the highest shares of investment funds. South east Wales accounted for the highest number of investments, with 64 out of the total 123 investments in

2023/24Q2, but with firms in mid and south west Wales receiving the highest shares of investment funds (from 34 investments).

The south east Wales region dominated in terms of the value of equity investments with over £2.7m of equity investments out of the total of £3.8m in 2023/24Q2. The information and communication sector accounted for around 40% of total equity investments, followed by manufacturing with a further 26% of equity funding in 2023/24Q2. The Cardiff area has previously been identified as an evolving equity cluster.⁷⁶

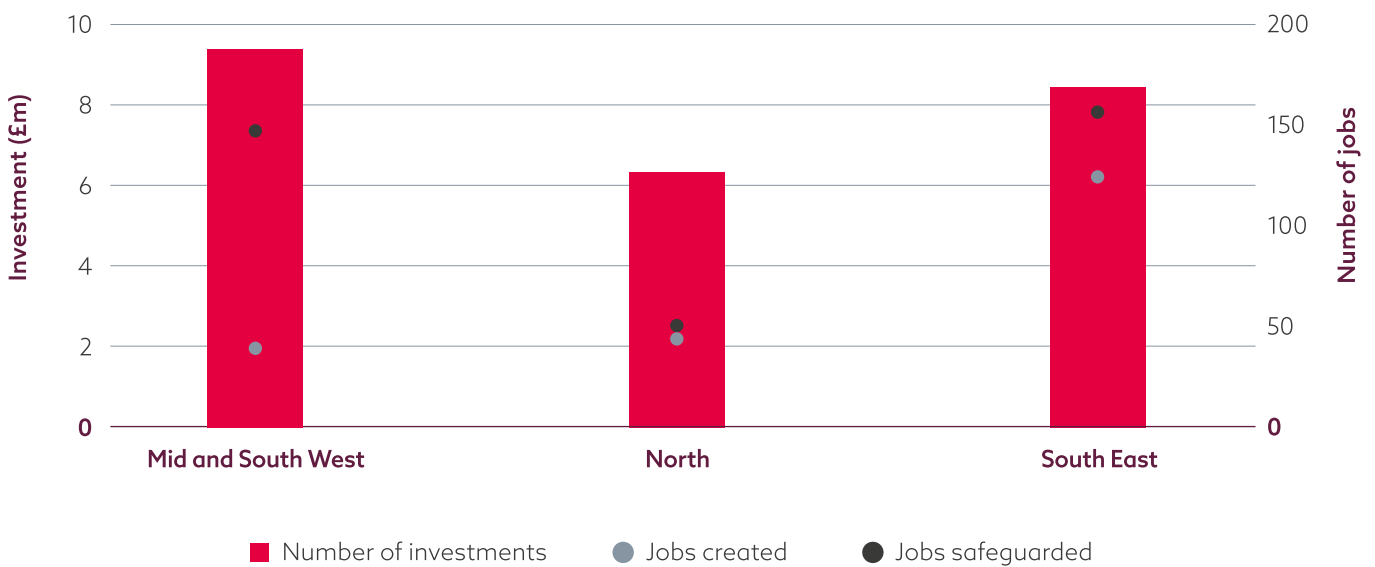
⁷⁶ https://developmentbank.wales/sites/default/files/2022-10/Equity_Clusters_Report_final.pdf

On average, each Development Bank investment in 2023/24Q2 was connected to almost £200,000 of investment

Whilst the number of investments was highest in the south east Wales region, the average investment value was lowest in this region, at just around £135,000 per transaction. This compares with an average of over £255,000 of funding per investment in north Wales and almost £274,000 per investment in mid and south west Wales.

Around 280 new or safeguarded jobs were supported by Development Bank investments in south east Wales, with a further almost 180 jobs in mid and south west Wales, and over 100 jobs in north Wales.

Figure 5.3.
Investment values, £m, and jobs created and safeguarded by location 2023/24Q2

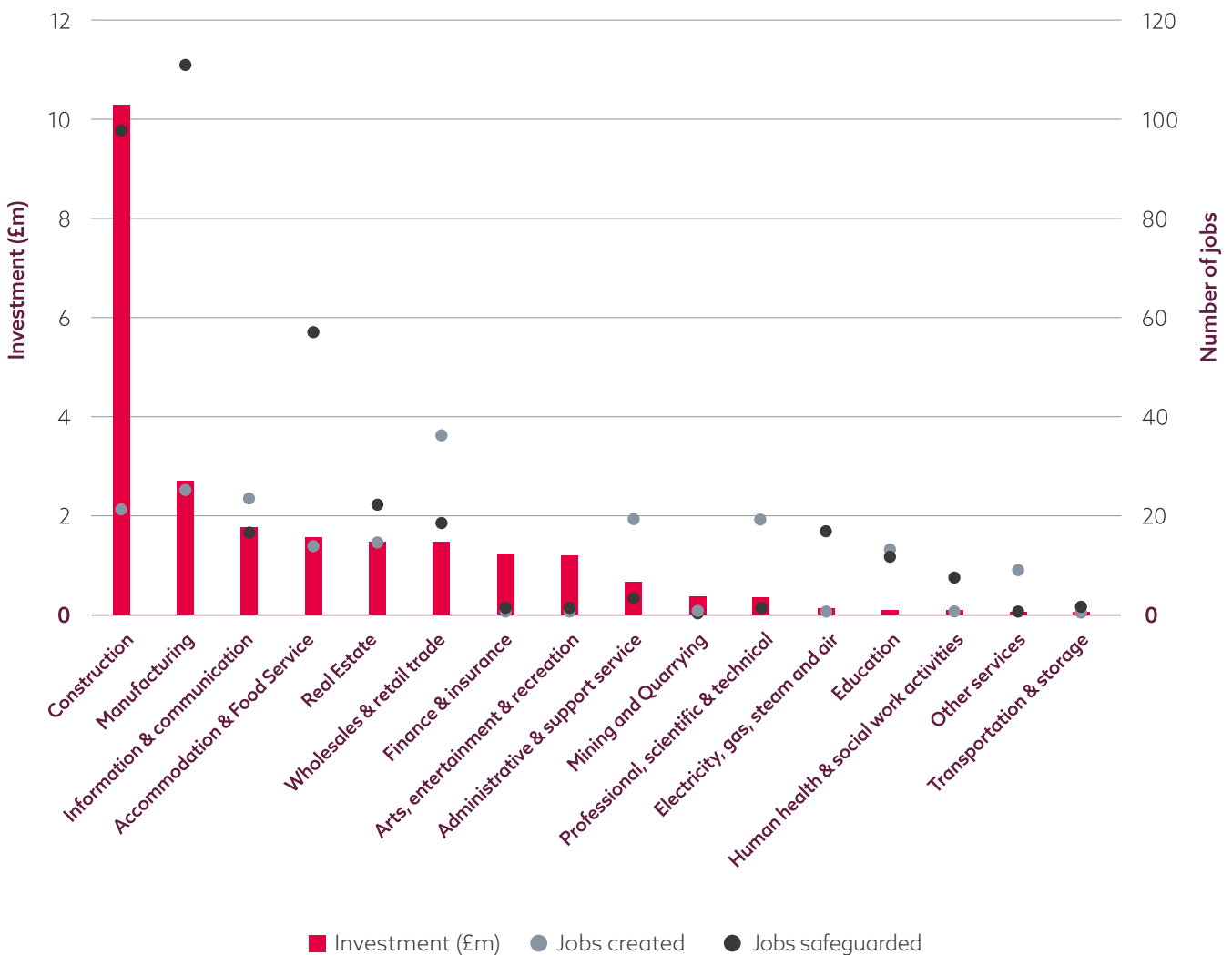


The construction sector dominated investment lending in 2023/24Q2, accounting for £10.4m (almost 43%) of funds

Over three quarters of the lending to the construction sector in 2023/24Q2 was connected with property development loans. Figure 5.4 shows that businesses supported by the

Development Bank in the manufacturing sector are linked to the highest number of new and safeguarded jobs (134 jobs), followed by the construction sector (118 jobs).

Figure 5.4.
Investment value, £m, and jobs by sector 2023/24Q2



This quarterly report, as has been the case with many recent editions, paints a very mixed view on the progress of the Welsh economy and SME prospects. An overarching theme in this report has been the limited uplift in business confidence in Wales, this despite some improvements in consumer confidence toward the end of 2023. This noted, the better-than-expected general reduction in headline inflation rates during the final quarter of 2023 was very welcome news and with this slowly being recognised in survey data which picks up on business expectations in terms of prices paid for goods and services. The unexpected marginal upturn in inflation in December 2023 may however temper these expectations in coming months.

Many of the leading UK and international forecasting groups are expecting low UK growth during 2024. The January 2024 HM Treasury comparison of economic forecasts⁷⁷ suggests GDP growth of 0.4% in the year to 2024Q4 and with CPI inflation down to 2.4%. While interest rates are expected to be over their peak, there is little indication that the Bank of England is set to reduce the rate greatly in the first half of this year. At a more international level, the first quarter of 2024 sees a steady increase in trade protectionist pressures, not least in high technology sectors and semiconductors.⁷⁸ The increasing geopolitical tensions linked to developments in the Red Sea are creating added uncertainties.

Closer to home Welsh Government spending is under extreme pressure and with public sector job losses expected during 2024 as services

are reduced. Strains on local authority finances have resulted in some council 'bankruptcies' in England, with the prospect of more to come.⁷⁹ Local authority spending helps to support SMEs through, for example, contracts for supplies and services. The challenging financial landscape for local authorities in Wales could then have wide-ranging impacts. Also, for South Wales, was the announcement in January 2024 that Tata Steel it to cut 2,800 jobs in the UK steel industry, with the majority of these expected to be lost in Port Talbot. These are the headline numbers, but with any change in employment and output levels at the plant expected to have significant multiplier effects in other parts of the Welsh economy.

Welsh Government has signalled in its Economic mission: Priorities for a stronger economy that encouraging local businesses to grow is a priority, and with a focus here on innovation, business support, key growth industries and support for commercialisation.⁸⁰ The Development Bank of Wales is a key part of this mission, and with this quarterly report continuing to provide evidence of the Bank's role in supporting small enterprises, with over £50m of investment in the first half of their financial year supporting over 200 Welsh businesses. The supply side for business finance in Wales will also be supported by British Business Bank's Investment Fund for Wales (announced in November 2023) which will provide £130m of finance to Welsh businesses, covering smaller loans for firms, and then more significant debt and equity finance.⁸¹

⁷⁷ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-january-2024>

⁷⁸ Financial Times (1.8.23) Tech cold war: South Korea pivots from China to US. <https://www.ft.com/content/c164c880-a832-422f-8fb4-29b2185d4982>

⁷⁹ <https://www.instituteforgovernment.org.uk/comment/local-government-finance-settlement-council-bankruptcies>

⁸⁰ <https://www.gov.wales/priorities-stronger-economy-html>

⁸¹ <https://www.british-business-bank.co.uk/nations-and-regions-investment-funds/investment-fund-for-wales-ifw/>

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>

Appendix 2:

Selected GDP forecasts for the UK economy 2023 and 2024
(% annual growth)

Forecasters	Date of forecast	2023 GDP % annual growth	2024 GDP % annual growth
IMF	October 2023	0.5	0.6
OECD	September 2023	0.3	0.8
NIESR	December 2023	0.6	0.5
Other non-city forecasters			
CBI	January 2024	0.6	0.8
Experian Economics	January 2024	0.3	0.5
Oxford Economics	January 2024	0.3	0.6
City forecasters			
Capital Economics	January 2024	0.3	0.2
JP Morgan	January 2024	0.5	0.2
KPMG	January 2024	0.3	0.4

Source: <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-january-2024>

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