

Economic Intelligence Wales

Quarterly report

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Mark Lang, Max Munday, Annette Roberts, Neil Roche

Welsh Economy Research Unit, Cardiff Business School
mundaymc@cf.ac.uk

For further information or to submit feedback and research proposals
please email: EconomicIntelligence@developmentbank.wales

*The ONS has advised on the production of this report but is not responsible
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Economic Intelligence Wales Limited, Unit J Yale Business Village, Ellice Way, Wrexham, Wales, LL13 7YL, 11001584.

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Summary

This is the third 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 third 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 February 2024 Economic Outlook Interim Report, **the Organisation for Economic Co-operation and Development projected that global growth would slow from 3.1% in 2023 to 2.9% in 2024, before rising to 3.0% in 2025.**

Data from the ONS showed that twelve-month Consumer Price Index (CPI) **inflation in the UK was 3.4% in February 2024, down from 4.0% in January 2024.**

In March 2024 the Bank of England maintained the **Bank Rate at 5.25%.**

In 2023Q4 UK gross domestic product (GDP) was estimated to have **shrunk by 0.3%**. This follows an unrevised estimated fall of 0.1% in 2023Q3.

Between December 2023 and February 2024, total **UK vacancies were down by 224,000** from the level of a year ago. Estimates from PAYE show a rise in the number of payroll employees in the UK for February 2024 to 30.4m, an increase of 368,000 employees compared to February 2023. **In Wales the number of payrolled employees grew by 12,200 to 1.32m in the year to February 2024.**

The **UK economic inactivity rate was 21.8%** in the quarter November 2023 to January 2024. **In Wales** the comparative figure was **26.9%**.

The **value of goods exported from Wales decreased by 5.2% to £19.4bn in the year ending December 2023.**

The average forecast (made in March 2024) for UK GDP growth in 2024 was 0.3%, down 0.1 percentage points from the average forecast made in February 2024.

Changing economic conditions shaping demand for finance

There were an estimated **246,375 active SMEs in Wales in 2023**, the vast majority (95.2%) being micro businesses employing fewer than nine people. **Provisional figures for 2023 suggest that the total number of SMEs in Wales fell by around 7,000 compared with 2022, with most of this loss being within the micro enterprise category.**

The Federation of Small Businesses (FSB) UK Small Business Index (SBI) of small business confidence registered its **seventh successive negative quarterly reading in 2023 Q4 of -15.0 points. The domestic economy continued to be the top concern for small businesses as a potential barrier to growth.**

The SME Finance Monitor 2023Q4 reported that 30% of all responding UK SMEs (excluding starts) experienced growth over the previous 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 2023Q4 was 2,325, whilst the number of business deaths in Wales during the same period was 2,705. **The number of business deaths in Wales continues to be greater than business births, as it has done since 2021Q2.**

The ONS Business Impacts and Conditions Survey (BICS) for 1 to 31 January 2024 (Wave 102) reported that **43.8% of Welsh businesses expected their performance would increase in the year ahead (UK 39.1%).**

ONS data showed that **UK house prices fell by 1.4% in the 12 months to December 2023.** The average house price in Wales in December 2023 was £214,000, representing a 2.5% decrease from December 2022.

Summary

The Bank of England reported that **housing investment fell by 1.4% in 2023Q3**, continuing the trend for consecutive falls since mid-2022.

Supply and demand for finance

Lenders reported that the availability of credit for small business increased, remained unchanged for medium businesses, and slightly increased for large business in 2024Q1. Meanwhile, lenders reported that demand from small businesses was unchanged, and demand from medium and large businesses slightly increased.

The SME Finance Monitor report, covering the two months to November 2023, found **a slight increase in the percentage of SMEs using external finance to 51%**.

UK Finance SME lending within UK postcodes data for 2023 H1 shows **a continued reduction in lending to Welsh SMEs during the first half of 2023**, with the overall lending volume decreasing from £4.56bn in 2022 H1 to £4.11bn in 2023 H1.

The number of announced equity investment deals across the UK during 2023 was down by 25% from the previous year (from 2,917 in 2022 to 2,179 in 2023), and the total amount raised was down by around half (from £20.6bn in 2022 to £12bn in 2023). **Wales accounted for 2.9% of UK equity deals (64 deals) during 2023, a slight decline compared with 2022.**

Analysis of the Bureau van Dijk FAME database of Companies House data revealed **that the proportion of SMEs in Wales in the Caution category increased slightly between December 2023 and April 2024.**

Development Bank of Wales activity

The Development Bank of Wales made **123 investments in the third quarter of 2023/24, with a total value of £48m**. These investments **created almost 290 new jobs and safeguarded over 1,080 jobs**.

Just under 58% of the value of Development Bank investment in 2023/24Q3 was in mid and south west Wales, with around 22% of investment value in north Wales and 20% in south east Wales.

The accommodation and food services sector and the construction sector dominated investments in 2023/24Q3, together accounting for £29m of funds.

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 third 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 has already published a report from the Enterprise Research Centre examining R&D intensive businesses in Wales.¹

¹ See [R&D intensive businesses in Wales: Innovation and contribution to turnover and employment \(developmentbank.wales\)](#)

- The Organisation for Economic Co-operation and Development's (OECD) forecast for global GDP growth in 2024 was 2.9%, down from 3.1% in 2023, due to continued restricted financial conditions in the world economy and restrained global trade.
- The Bank of England maintained the Bank Rate at 5.25% in March 2024, noting that indications of persistent inflationary pressures and resilience in the economy as a whole would be monitored closely.
- In 2023Q4 UK gross domestic product (GDP) was estimated to have shrunk by 0.3% on the quarter, following a fall of 0.1% in 2023Q3.
- Twelve-month Consumer Price Index (CPI) inflation in the UK was 3.4% in February 2024, down from 4.0% in January.
- In Wales the economic inactivity rate increased 1.6 percentage points on the year to 26.9% in the quarter November 2023 to January 2024. The equivalent UK figure was 21.8% (0.1 percentage point above the rate a year ago).

Global prospects

In the Organisation for Economic Co-operation and Development's (OECD) Economic Outlook, Interim Report, published in February 2024², the forecast growth of world gross domestic product (GDP) is 2.9% for 2024, down from 3.1% in 2023. The easing in growth was attributed to the effects of continued tightening of financial conditions (particularly in housing and credit markets) and restrained global trade. The report noted that price pressures had been increased by such geo-political events as the attacks on shipping in the Red Sea disrupting trade and extending delivery times.

The OECD Interim Economic Outlook projection for global GDP growth in 2025 is for a slight recovery to 3.0% as financial conditions eased. In comparison to this, the International Monetary Fund's (IMF) World Economic Outlook, published

in January 2024³, projected global growth of 3.1% in 2024. This is 0.2 percentage point higher than the October World Economic Outlook publication⁴ due to upgrades for the United States, China, and large emerging market and developing countries. The IMF projection for 2025 is 3.2%.

According to the IMF, GDP growth in the United States is forecast to be 2.1% in 2024, before falling to 1.7% in 2025. The comparative figures for the Euro area are for growth of 0.9% in 2024 and 1.7% for 2025. In the UK the growth projection is 0.6% for 2024, before increasing to 1.6% for 2025, with a weakening in the lagged negative effects of high energy prices, and disinflation permitting a recovery in real incomes.⁵

²https://www.oecd-ilibrary.org/economics/oecd-economic-outlook_16097408

³<https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024>

⁴<https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023>

⁵<https://www.imf.org/en/Publications/WEO/Issues/2024/01/30/world-economic-outlook-update-january-2024>

The IMF forecast that global inflation will fall from 6.8% (annual average) in 2023, to 5.8% in 2024, and then to 4.4% in 2025. The IMF now expects a softer-than-expected landing in many major economies following downward revisions to inflation projections and modest

upgrades to economic activity. However, it warned that a plausible downside risk to global growth still exists in the event of a slower than expected fall in core inflation in major economies (for example due to rekindled supply chain strains as seen in early 2024).

Continued easing of UK inflationary pressures

The annual rate of producer output (factory gate) prices increased by 0.4% in the year to February 2024⁶ according to the ONS. This compares to a revised 0.3% fall in the year to January 2024. The largest upward contribution to the annual output inflation rate in February 2024 came from petroleum products (1.64 percentage points) and other outputs (1.15 percentage points). Chemicals and paper products had the largest downward contribution to the annual output inflation rate in the year to February 2024, with a negative contribution of 1.79 and 1.19 percentage points respectively.

Data from the ONS showed that twelve-month Consumer Price Index (CPI) inflation in the UK was 3.4% in February 2024, down from 4.0% in January 2024. The CPI annual rate in February 2024 was the lowest since the

3.1% observed in September 2021, and was substantially down from the high of 11.1% in October 2022. The largest upward contribution to the monthly change in the CPI annual inflation rate in the year to February 2024 was from housing and household services, and motor fuels. The largest downward contributions came from food, restaurants, and cafes.

In March 2024, the Bank of England maintained the Bank Rate at 5.25%. The Monetary Policy Summary for March 2024 indicated that the Bank would "...continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation".⁸

The first quarterly UK GDP estimate for 2023Q4 shows the UK economy had entered a technical recession

Following an unrevised estimated fall of 0.1% in 2023Q3, UK real (constant price) gross domestic product (GDP) was estimated to have shrunk by 0.3% 2023Q4.⁹ Although there is no official definition of a recession¹⁰, the one most commonly used by commentators

is a contraction in output for two or more consecutive quarters, termed a technical recession. The ONS noted that early estimates of GDP are subject to revision (positive or negative) and most experts "...consider other factors in the broader picture while accounting

⁶ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/february2024>

⁷ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2024>

⁸ <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/march-2024>

⁹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2023>

¹⁰ <https://blog.ons.gov.uk/2022/11/11/uncertainty-and-the-r-word-what-exactly-is-a-recession/>

for the latest data, such as depth, diffusion (how widespread), and duration of the change in GDP...".¹¹ Compared with a year ago, real GDP in 2023Q4 is estimated to have shrunk by 0.2%.

By sector, output in UK services fell by 0.2% in 2023Q4, with this following a fall of 0.2% in 2023Q3, and 0.1% in 2023Q2. The largest negative contributors to the fall in services in 2023Q4 were in the wholesale and retail trade, repair of motor vehicles and motorcycles (a decline of 0.6%); education (a fall of 0.8%), which the ONS note is partially attributable to a drop in school attendance; and other service activities (decreased by 2.4%). The largest positive contribution to output in services growth was from administrative and support service activities, with this sector growing by 0.6% driven by an increase of 6.9% in rental and leasing activities. Falls in food and beverage service activities and retail trade, except of motor vehicles and motorcycles,

drove a decline of 0.7% in consumer-facing services in 2023Q4. The ONS indicate that this was offset by an increase in accommodation services such as hotels in 2023Q4.

In the UK, output in production decreased by 0.1% in 2023Q4 following an increase of 0.1% in 2023Q3 (unrevised from the previous estimate). Manufacturing was the largest contributor to the fall in production; 10 out of the 13 manufacturing sub-sectors declined in 2023Q4 with output in the sector shrinking by 0.9% in the quarter. This followed four consecutive quarters of manufacturing output growth. The largest negative contributors to manufacturing performance were in the manufacture of machinery and equipment not elsewhere classified (a decline of 7%) and the manufacture of rubber and plastics products, and other non-metallic mineral products (falling 4.7%). Manufacture of transport equipment, however, increased by 1.8%.¹²

UK business investment increased in 2023Q4, but by less than provisionally estimated

According to the ONS, UK business investment increased by 1.4% in 2023Q4, revised down from the provisional 1.5% increase.¹³ The main positive contributions to business investment growth in 2023Q4 were in buildings investment, and transport. Annual UK business investment was 2.8% above where it was

the same quarter a year ago. Annual UK business investment increased by 5.5% in 2023, revised down from a 6.1% increase in the provisional estimate, and was driven by positive contributions from transport and buildings.

¹¹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2023>

¹² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2023>

¹³ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/octobertodecember2023revisedresults>

Job vacancies continue to fall in the UK

The number of UK job vacancies was 908,000 in the period December 2023 to February 2024, falling by 43,000 from September to November 2023.¹⁴ Vacancy numbers for the UK decreased on the quarter for the 20th consecutive period, this representing the longest consecutive run of quarterly falls ever recorded. In December 2023 to February 2024, total vacancies were down by 224,000 from the level of a year ago, although they were still 107,000 above their pre-pandemic (January to March 2020) level. The largest proportional decreases in vacancies in December 2023 to February 2024 from the previous quarter were in the industries of Arts, entertainment, and recreation (down 19.8%), and Other service activities (decreasing by 10%).

Early estimates from Pay as You Earn Real Time Information¹⁵ show a rise in the number of payroll employees in the UK for February 2024 to 30.4m, an increase of 368,000 employees (or 1.2%) over the figure for February 2023.

In the year to February 2024, the increase in payrolled employees in the UK was largest in the health and social work sector (an increase

of 210,000 employees or 5.0%) and smallest in the information and communication sector (a decrease of 24,000 or -1.8%).¹⁶ A number of other sectors experienced a fall in payrolled employees between February 2023 and February 2024, with these including manufacturing, construction, transportation and storage, accommodation and food services, and administrative support. The percentage increases in payroll employees over the year was highest in energy production and supply (9.5% or 10,000 employees), and health and social work (as noted above, 5.0% or 210,000 employees).

In Wales the number of payrolled employees grew by 12,200 (or 0.9%) to 1.32m in the year to February 2024.¹⁷ The UK regional data on payroll employees by sector is updated less frequently, but the data to January 2024 for Wales shows that the percentage increase in payroll employees over the year was highest in energy production and supply (6.8% or 360 employees).¹⁸ Over the year to January 2024, there was an increase of 8,300 (or 3.8%) payrolled employees in the health and social work sector in Wales, and 3,300 (or 1.8%) in education.

Labour market data from the Labour Force Survey reinstated

In February 2024 the ONS reinstated reweighted Labour Force Survey (LFS) estimates, with these estimates being defined as "official statistics in development"¹⁹. The ONS highlighted that

reweighting would not tackle the volatility seen in recent periods, so that a degree of caution was still advised in interpreting short-term changes in headline rates.²⁰

¹⁴ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/march2024>

¹⁵ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/march2024>

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

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

¹⁸ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted/current>

¹⁹ <https://www.ons.gov.uk/methodology/methodologytopicsandstatisticalconcepts/guidetoofficialstatisticsindevelopment>

²⁰ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/march2024>

The unemployment rate remains relatively stable in the UK and Wales

According to figures from the ONS, the unemployment rate in the UK (all aged 16+, seasonally adjusted) was 3.9% in the quarter November 2023 to January 2024, 0.1 percentage point above the figure for the quarter November 2022 to January 2023.²¹ The highest UK regional unemployment rates

in the three-months ending December 2023 were in the East Midlands (5.1%), Scotland (4.5%), North East (4.3%), and North West (also 4.3%), while the lowest rates were in Northern Ireland (2.6%), the South West (2.8%), Yorkshire and The Humber (3.4%), and East (3.4%). The comparative figure for Wales was 3.5%.²²

An increase in the unemployment benefit claimant count in the UK and Wales

During the year to February 2024, the UK unemployment-related benefit claimant count (not seasonally adjusted) increased by 87,600 to 1.61m people.²³ In Wales 63,600 people claimed unemployment-related benefits in February 2024 (equal to 3.4% of the working age population, compared with a figure of 3.8% for the UK), an increase of 800 in the number of claimants compared with February 2023.²⁴

The Welsh unitary authority areas with the highest proportion of working age population claiming unemployment-related benefits, according to the data for February 2024, were Newport (4.7%), Blaenau Gwent (4.2%), Cardiff (4.0%), Torfaen (3.8%), and Conwy (also 3.8%), and those with the lowest proportions were Powys (2.3%), Monmouthshire (2.4%), Flintshire (2.8%), Bridgend (2.8%), and Gwynedd, Ceredigion, and Carmarthenshire (all 2.9%).

Economic inactivity rises marginally in the UK, but more severely in Wales

According to ONS Labour Force Survey data, the UK economic inactivity rate (seasonally adjusted, all aged 16 to 64 years) was 21.8% in the quarter November 2023 to January 2024. This was 0.1 percentage point above the rate a year ago (November 2022 to January 2023).²⁵ The ONS noted that the increase in UK economic inactivity on the year was largely driven by those inactive

either because they were students or retired. The number of those inactive because they were long-term sick was higher than estimates from a year ago (November 2022 to January 2023). The economic inactivity rate in Wales increased 1.6 percentage points on the year to 26.9% in the quarter November 2023 to January 2024.²⁶

²¹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#unemployment>

²² <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

²³ <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/outofworkbenefits/datasets/claimantcountcla01>

²⁴ <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Unemployment/Claimant-Count/claimantcount-by-welshlocalareas-variable-month>

²⁵ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#economic-inactivity>

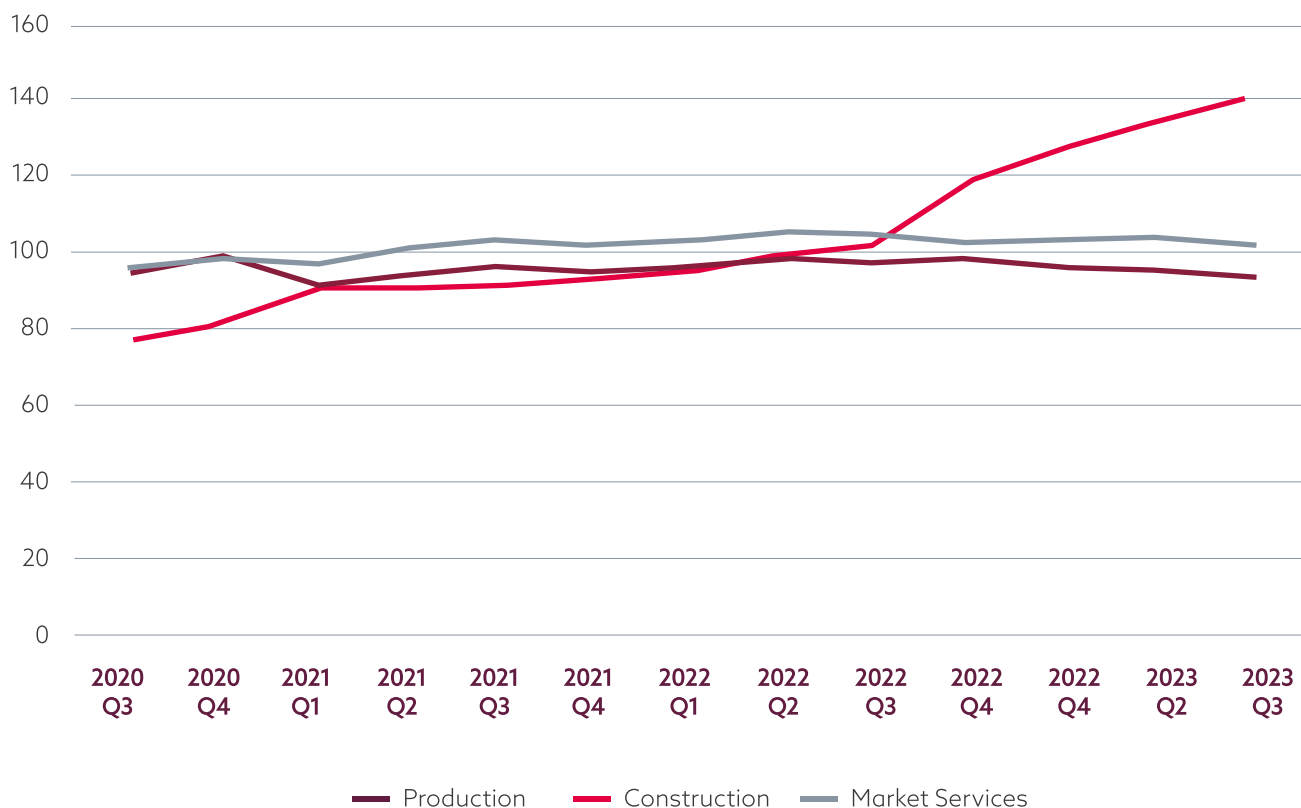
²⁶ <https://www.gov.wales/labour-market-overview-march-2024>

Growth in Welsh construction industry output

Figure 2.1 highlights the trend in Welsh production, construction, and market services indices from 2020Q3 to 2023Q3. In the ten consecutive quarters to 2023Q3, the Welsh indices of production and market services have stayed relatively stable. The production index declined marginally in 2023Q3 and has not yet returned to pre-pandemic 2019 levels, while the market services index fell slightly in 2023Q3 but remained slightly above the 2019 level. Figure 2.1 shows that there has been robust growth for the last four quarters in the Welsh

construction index, with a 39.1% increase above 2019 levels by 2023Q3. The Welsh Government's Statistical Bulletin notes that 'This was driven by several large construction projects ongoing in Wales in the latest quarter (2023 Q3)'.²⁷ On-going projects include the upgrading of the A465 from Dowlais Top to Hirwaun, and the South Wales Metro developments. In contrast, the UK index of construction has grown much more slowly, reaching a value of just 5.8% above 2019 levels by 2023Q3.

Figure 2.1.
Welsh output indices, 2020Q3 – 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](#).

²⁷ <https://www.gov.wales/sites/default/files/statistics-and-research/2024-02/short-term-output-indicators-july-september-2023-091.pdf>

The value of goods exported from Wales decreased in the year to 2023Q4

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 2023Q4 the trade in goods data for the UK regions show that there had been a decrease in the value of exports from all UK countries, except Northern Ireland, in the year ending December 2023 compared with the previous twelve months.²⁸ The value of goods exported from Wales decreased by 5.2% to £19.4bn in the year ending December 2023 (compared with a decrease of 1.7% in England, 8.3% in Scotland, and an increase of 16.6% in Northern Ireland).

There were mixed fortunes in total export values by products in Wales over the year to December 2023.²⁹ Welsh Machinery and Transport goods experienced relatively high growth in the value of their exports increasing to £8.3bn in the year ending 2023Q4, from £7.5bn in the previous twelve months, an increase of 9.7%. Contrastingly, Mineral Fuels total exports fell to £3.5bn in the year ending 2023Q4, from £4.6bn in the previous twelve months, a decrease of 24.0%. Manufactured goods total exports fell to £2.7bn in the year ending 2023Q4, from £3.0bn in the previous twelve months, a decrease of 10.1%.

The total exporter count in Wales in 2023Q4 was 3,145 representing a fall of 3.2% from the figure in 2022Q4 (using the Whole Number Method³⁰). This compares to a drop of 2.5% for the UK as a whole in the same time period.³¹ Trade volume data published by HM Revenue & Customs for the year to 2023Q4 showed that a net mass of 8.0 billion kilograms were exported from Wales, a decrease of 11.7% from the previous twelve months.³²

In the year to December 2023 the value of goods imported fell in Wales by 11.7% to £21.3bn when compared to the previous twelve months.³³ This compared to decreases in the value of imports in England of 5.4%, in Scotland of 18.2%, and an increase in Northern Ireland of 0.5%.

The total importer count in Wales in 2023Q4 was 8,796, an increase of 10.1% from the figure in 2022Q4. In the UK the total importer count decreased by 0.3% over the same period.³⁴ Trade volume data published by HM Revenue & Customs, for the year to 2023Q4, showed that a net mass of 18.5 billion kilograms were imported into Wales, a decrease of 2.4% from the previous year to the end of 2022Q4.³⁵

²⁸ <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-fourth-quarter-2023>

²⁹ <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-fourth-quarter-2023/>

³⁰ "Whole number method": A business counts as 1 in each region they have employees.

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

³² <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

³³ <https://www.uktradeinfo.com/trade-data/regional/2023/uk-regional-trade-in-goods-statistics-fourth-quarter-2023#datasets>

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

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

UK economy forecasts

A comparison of independent forecasts received between the 1st and the 15th of March 2024 was published in the March 2024 HM Treasury Forecasts for the UK Economy.³⁶ The average forecast for UK GDP growth in 2024 was 0.3%, down 0.1 percentage points from that

projected in the February 2024 publication. The average forecast for GDP growth in 2025 remained at 1.2%, the same figure as the forecast made in February 2024. Appendix 2 of this report shows a summary of selected GDP forecasts for the UK for 2024 and 2025.

³⁶ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-march-2024>

- The UK Budget extends full expensing to leased assets and raises VAT threshold.
- Small business confidence registered its seventh successive negative quarterly reading.
- The domestic economy remained the top concern for small businesses as a barrier to growth.
- Business deaths in Wales continue to exceed business births.

UK Budget highlights

There was less focus in the March UK Budget on businesses than there had been in the Autumn Statement, which, as previously reported, included the decision to make full capital expensing a permanent feature. One of the few measures designed to support

businesses contained in the Budget was an extension of this scheme to cover leased assets. Another measure included lifting the VAT threshold to £90,000. A further change, that will impact the self-employed, is the reduction of self-employed NICs by 2p.

Business population in 2023

There were an estimated 246,375 active SMEs in Wales in 2023 and, of these, the vast majority, 234,615 (95.2%), were micro businesses employing fewer than nine people.³⁷ Provisional figures for 2023 suggest that the total number of SMEs in Wales fell by around 7,000 from 2022, with most of this loss being within the micro enterprise category. The three largest SME sectors in Wales, based on the number

of enterprises, were: the 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.

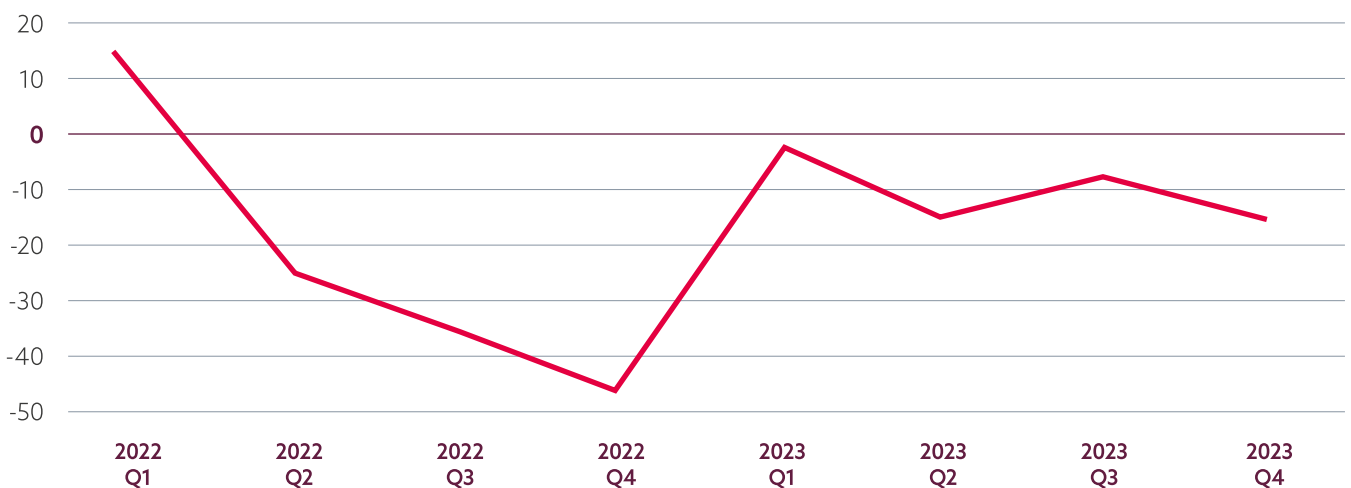
³⁷ <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/enterprises-by-sizeband-area-year>

Small business confidence remains in negative territory

The Federation of Small Businesses (FSB) UK Small Business Index (SBI)³⁸ of small business confidence registered its seventh successive negative quarterly reading in 2023Q4 of -15.0 points.³⁹ This represented a fall back from the -8.0 points recorded in the previous quarter. Figure 3.1 shows the trend of the FSB SBI

between 2022Q1 and 2023Q4. The SBI found that 2 out of 5 small businesses saw their revenues fall over 2023Q4, whilst 1 in 3 reported revenue growth. Moreover, the proportion of small businesses that expected their businesses to contract over the subsequent 12 months grew to 1 in 7 (up from 1 in 8 during 2023Q3).

Figure 3.1.
UK Small Business Confidence Index, 2022Q1-2023Q4



Source: FSB Small Business Index, 2023Q4 ⁴⁰

Large differences in sectoral confidence persisted in 2023Q4. The business confidence index in the Accommodation and Food services sector registered -73.0 points, a significant worsening since the previous quarter when it stood at -31.1 points. The Wholesale and Retail sector remained the second weakest in 2023Q4 falling to -29.8 from -22.8 in the previous

quarter. Business confidence in Manufacturing also saw a dip in 2023Q4 to -26.2 down from -6.7 in Q3. Construction remained fairly steady, recording -8.0, having previously recorded -7.7 in Q3. Professional, Scientific, and Technical activities fell into negative territory, recording -4.7 points in 2023Q4, having previously recorded a positive index of 6.9 in Q3.

³⁸ 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.'

³⁹ <https://www.fsb.org.uk/resources-page/final-quarter-of-2023-saw-small-business-confidence-lose-ground-new-report-finds.html#:~:text=Small%20business%20confidence%20lost%20ground,Q2%27s%20result%20of%20%2D14.2%20points>

⁴⁰ FSB Small Business Index, 2023Q4 op. cit.

The domestic economy remains the top concern for SMEs

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 61.8% of SMEs in 2023Q4. Consumer demand remained the next most cited concern (30.7%), whilst labour costs (27.3%), and the tax burden (23.2%) were also commonly cited by SMEs as barriers to growth.

The Business Confidence Monitor (BCM) of the Institute of Chartered Accountants in England and Wales' (ICAEW) for 2023Q4 reported a slight improvement in overall business confidence, now standing at +4.2, but this is low (even though it is in positive figures) and remains below pre-pandemic levels (averaging +7.2 between 2010-19)⁴¹. The monitor shows that domestic sales growth continues to slow, standing at 3.6% in 2023Q4 close to the historical average of 3.0%, whilst overall growth has fallen to 2.1% below the historical 3.0%. By sector, Business Services has dipped to -4.2% and Energy, Water and Mining to -2.8%, whilst the Property sector stood at +4.5%, during 2023Q4. Customer demand is one of the most significant growing challenges businesses face overall, with 35% citing it as an increasing concern, but it is a particular issue for Construction (48%) and Retail & Wholesale (47%) businesses. Meanwhile, annual input price inflation eased to 5.1% in

2023Q4. Across the UK, businesses in the West Midlands (11.4%) and the North East (10.8%) were most confident, but business in Wales saw confidence falling to -6.7% in 2023Q4, from -3.2% in the previous quarter, making Welsh businesses by far the least confident of any region (Yorkshire and Humber was the only other region to experience negative business confidence in 2023Q4 at -0.4%).

The SME Finance Monitor 2023 Q4⁴² reported that 30% of all responding UK SMEs (excluding starts) experienced growth over the previous 12 months. Broken down by SME size, 49% of businesses employing 50-249 employees, 47% of those employing 10-49, 35% employing 1-9, and 28% of those with no employees, experienced growth in the last 12 months. The current economic climate was also cited as the key barrier to SME growth in this survey (32%), representing a slight rise since the start of 2023 (when it stood at 30%). Political uncertainty (23%) and cash flow or issues with late payment (16%) were also key concerns raised by SME respondents to this survey. As previously reported, 40% of SME respondents said they had been 'significantly impacted' and an additional 35% 'somewhat impacted' by increasing costs during the 3 months to October 2023.

⁴¹ 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>

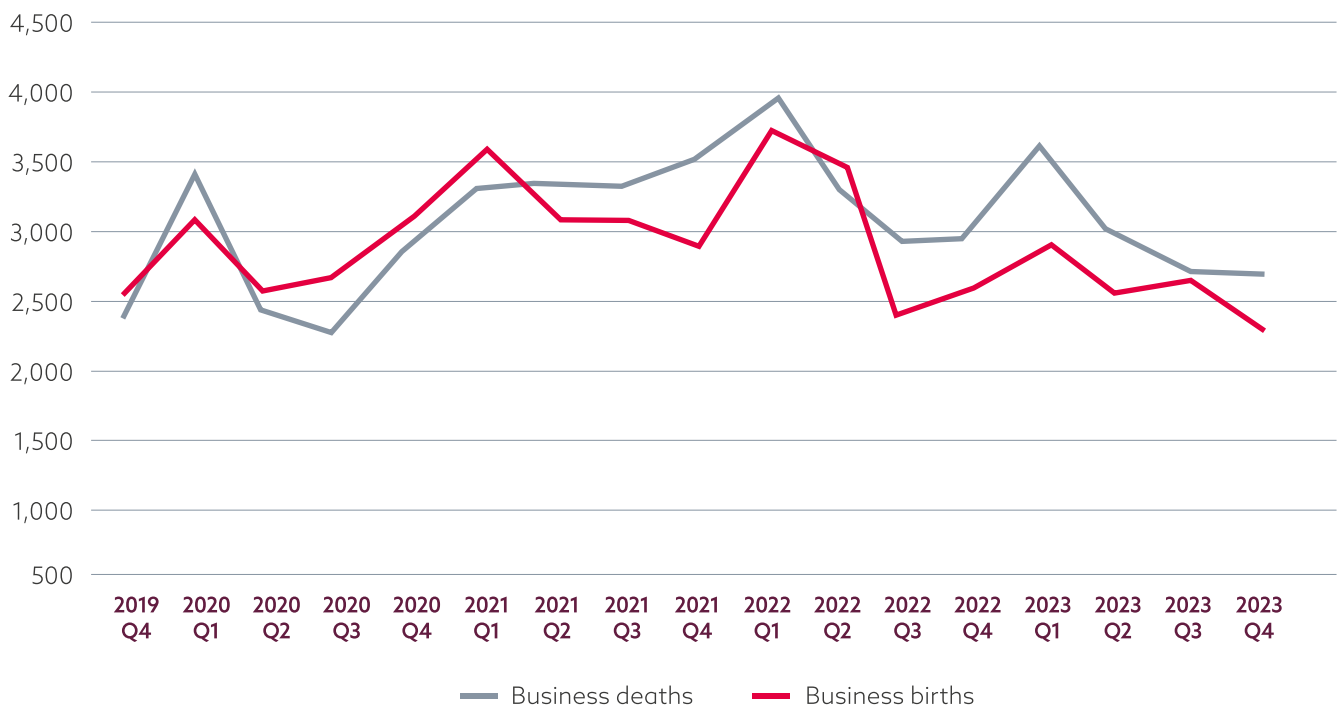
⁴² <https://www.bva-bdrc.com/wp-content/uploads/2024/01/SME-Monthly-charts-Nov-2023-Final.pdf>

Business deaths continue to exceed the number of business births

The ONS reported an estimated total of 71,795 UK business births during 2023Q4; this was a 2.6% increase on 2022 Q4.⁴³ The ONS also reported that the number of UK business deaths in 2023Q4 was 75,025, which was 9.8% lower than the same quarter in the previous year. In 2023Q4, therefore, the number of business deaths exceeded business births across the UK. Figure 3.2 reveals the variation

of quarterly business births and deaths in Wales over the past 17 quarters.⁴⁴ The number of business births in Wales in 2023Q4 was 2,325, whilst the number of business deaths in Wales during the same period was 2,705. The number of deaths in Wales, therefore, continues to be greater than business births as it has done since 2021Q2, and the gap has noticeably grown since the previous quarter.

Figure 3.2.
Quarterly Business Demography in Wales, 2019Q4 – 2023Q4



Source: ONS Business Demography, Quarterly Experimental Statistics, UK⁴⁵

⁴³ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/octobertodecember2023>

⁴⁴ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticslowlevelgeographicbreakdownuk>

⁴⁵ ONS, see prior footnote.

Business impacts and conditions survey

The ONS Business Impacts and Conditions Survey (BICS) for 1 to 31 January 2024 (Wave 102)⁴⁶ reported that 28.4% of Welsh businesses surveyed experienced a sales increase compared to the previous month and 25.5% reported a decrease on the previous month. Some 39.5% of surveyed businesses in Wales expected sales to increase in March 2024 against a UK average of 36.1%. The BICS also reveals that, during January, 11.2% of surveyed businesses in Wales reported that the prices of the goods and services sold by their businesses had increased when compared with the previous month, and 18.5% of surveyed businesses in Wales reported that the prices they had paid for goods and services had increased from the previous month.

Some 23% of Welsh firms reported that they expected their employment to increase in March 2024 (UK 19%), and just 5.5% believing they were at moderate risk of insolvency (UK 6.6%).

Compared to the same period in 2023 some 29.3% of Welsh businesses believed their performance had increased (UK 25.4%) and with 20.9% believing it had decreased (UK 20.1%). In terms of expectations for 2024, 43.8% of Welsh businesses expected their performance would increase in the year ahead (UK 39.1%). A higher proportion of surveyed businesses in Wales were expecting an increase in performance compared to other parts of the UK except the South West and the North East.

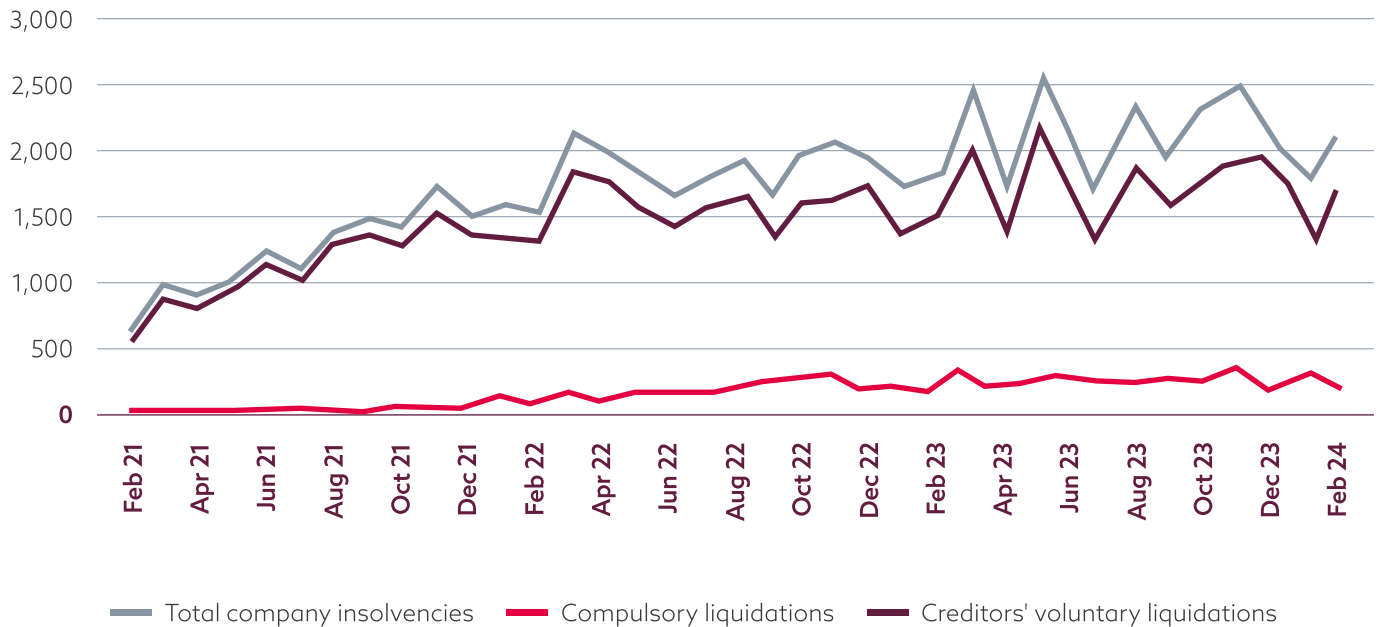
Business insolvencies

Figure 3.3 shows the trend of registered company insolvencies in England and Wales from February 2021 to February 2024. The number of insolvencies fluctuated significantly throughout 2023 and has continued to do so at the start of 2024. The total monthly insolvencies

in February 2024 were 2,102. This overall rate has continued to be driven mainly by creditors' voluntary liquidations, which stood at 1,707 in February 2024, whilst the number of compulsory liquidations were 217 during the same month.

⁴⁶ <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

Figure 3.3.
Monthly Registered Company Insolvencies, England and Wales, February 2021 – February 2024



Source: UK Government Insolvency Monthly Statistics⁴⁷

As indicated in previous quarterly reports, County Court judgments for debt can partially help predict future insolvencies when taken as part of a wider trend. When compared with 2022Q4, County Court judgements were up 11% to 402,000 in 2023Q4, and 83% of these were based on money claims (a 13% increase).

Money claims valued up to £500 were up 12% during 2023Q4 compared with the previous quarter, whilst claims between £1,000 and £3,000 were up 15%. Overall, when compared with 2019Q4 (the pre-covid baseline), County Court claims were down 16% during 2023Q4.

Housing and commercial property

A key element of Development Bank activity links through to property investment (see section 5), and this quarterly report again highlights some

recent data relating to factors affecting demand for finance to support property investments.

⁴⁷ <https://www.gov.uk/government/collections/monthly-insolvency-statistics>

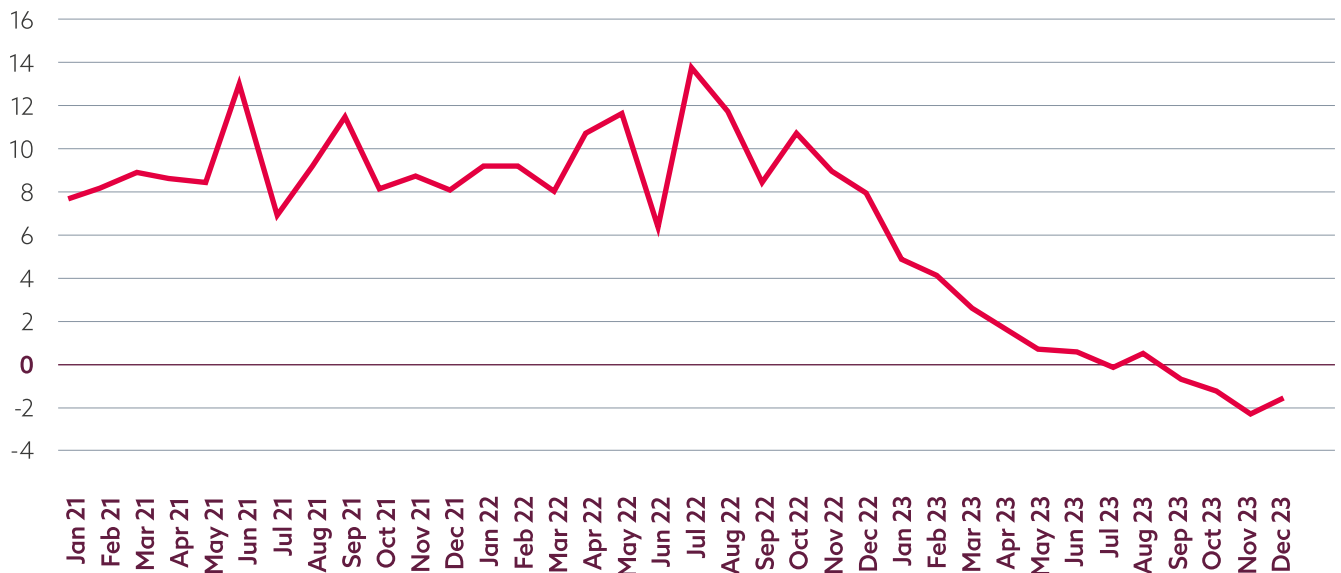
UK house prices fell in the year to December 2023

The latest ONS data, which captures both cash and mortgage-based purchases, shows that UK house prices fell by 1.4% in the 12 months to December 2023.⁴⁸ The average UK house price in December 2023 was £285,000, which was £4,000 lower than 12 months previously. The average

house price in Wales in December 2023 was £214,000, representing a 2.5% decrease from December 2022. More recent data, from lender Halifax, has indicated that average UK house prices fell 1 per cent in March from February, their first fall after five consecutive monthly rises.⁴⁹

Figure 3.4.

ONS House Price Index, Annual Percentage Change, January 2021 - December 2023



Source: ONS House Price Index⁵⁰

⁴⁸ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/december2023>

⁴⁹ Financial Times (05.04.24) UK average house prices fall for first time in six months, says Halifax. <https://www.ft.com/content/83aa6474-6362-4bbb-b920-64ef01ab643f#post-f7d8b866-7722-4fe6-8951-a04428f5bbd1>

⁵⁰ ONS (October 2023) Ibid.

With the Bank of England increasingly unlikely to cut the benchmark rate as soon as was previously believed, in February it was reported that several UK lenders had announced mortgage rate increases. Although the average five year rate touched a low of 5.18% at the end of January, it has since risen slightly.⁵¹

As previously reported, the total number of transactions during 2023 was around 10% lower than pre-pandemic levels, whilst those involving a mortgage were around 20% lower⁵², and another 1.6 million homeowners will need to remortgage during 2024 when their current fixed-term rates come to an end.⁵³

A slowdown in UK housing investment during 2023

The Bank of England has reported that housing investment fell by 1.4% in 2023Q3, continuing the trend for consecutive falls since mid-2022, and contributing to an expected overall fall of 5.75% during 2023. The fall in 2023Q3 was mainly driven by a fall in new dwellings. Spending on home improvements has been resilient in recent quarters.⁵⁴ The S&P Global/CIPS UK construction purchasing managers' index registered 49.7 in overall construction activity in February 2024, up

from 48.8 in January 2024, the highest reading since August 2023. The house building segment of the index rose to 49.8 in February, up from 44.2 in January, but commercial construction remained subdued.⁵⁵ Nevertheless, as previously reported it is generally expected that 2024 will bring stabilisation and recovery in housebuilding in the UK, the sector does not appear to expect a significant improvement during the year ahead, and that any recovery is likely to be slow.⁵⁶

UK commercial property values declined in 2023

As reported in the previous quarterly report, commercial property values experienced significant declines during 2023. As in the residential market, many commercial property owners are currently facing higher debt costs and are being forced to sell, and some stronger investors are making acquisitions whilst the market is experiencing such lows⁵⁷. Overall, redemptions from UK property funds over 2023 were high and about £1.4 billion left the market during this period⁵⁸.

Although some commercial property landlords are expecting commercial property investment to improve during 2024⁵⁹, the market for large offices and shopping centres continues to be badly affected. The continuing post-pandemic trend for working from home has also reduced demand for commercial property, and vacancy rates in major European cities are now between 10-20%⁶⁰. Significant overall improvement in 2024, therefore, continues to seem unlikely.⁶¹

⁵¹ Financial Times (22.02.24) UK mortgage rates tick up as race towards cheaper deals eases. <https://www.ft.com/content/a538f364-qc7f-46fb-bc13-f658c8ba0c4a>

⁵² Nationwide (December 2023) <https://www.nationwidehousepriceindex.co.uk/reports/house-prices-fall-1-8-percent-over-the-course-of-2023>

⁵³ <https://www.ukfinance.org.uk/news-and-insight/blog/2024-choosing-right-product-transfer>

⁵⁴ Bank of England (February 2024) Monetary Policy Report <https://www.bankofengland.co.uk/monetary-policy-report/2024/february-2024>

⁵⁵ S&P Global UK Construction PMI (March 2024) <https://www.pmi.spglobal.com/Public/Home/PressRelease/1604f755a8aa4888ae4b084caa5e883e>

⁵⁶ Financial Times (28.02.24) 'Taylor Wimpey warns housebuilding output will not recover until 2025'. <https://www.ft.com/content/3c6548ae-8a81-423a-ab6a-2da4024b312d#post-ab415e79-ef20-4814-acaa-06f11b05a83e>

⁵⁷ Financial Times (28.02.24) 'UK landlords hunt for deals in real estate slump'. <https://www.ft.com/content/825b5aac-ff47-4011-b5d6-1df7fa135da2>

⁵⁸ Financial Times (27.10.23) 'How investors lost their love for UK property funds'. <https://www.ft.com/content/99b8f61a-ae45-4961-8513-83fd3e6ee967>

⁵⁹ Financial Times (14.11.23) 'Landsec predicts buying opportunities in commercial property'. <https://www.ft.com/content/c82d0149-67d7-442f-891d-abf64e1ecc21>

⁶⁰ Financial Times (12.01.24) 'Refinancing challenges loom for Europe's commercial real estate'. <https://www.ft.com/content/b798f80e-5d9d-4577-a234-dc3e98fe0b23>

⁶¹ Financial Times (27.10.23) Op. cit.

- The proportion of UK SMEs using external finance increased slightly in 2023Q4.
- The average interest rate on SME loans in February 2024 was higher than 12 months previous.
- A continued reduction in lending to Welsh SMEs.

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 survey covers lending to households and lending to non-financial corporations, small businesses, and non-bank financial firms. The 2024 Q1 survey asked lenders to report their perceived changes in both supply and demand sides of credit conditions for the three months to the end of February 2024, relative to the three months to November 2023, and then expected changes to May 2024.⁶²

Lenders reported that the availability of credit (defined as willingness and ability to supply credit) to the corporate sector remained unchanged in 2024Q1 (having previously slightly increased in 2023 Q4). As in the previous quarter, the availability of credit for small business increased, remained unchanged for medium

businesses, and slightly increased for large business. Overall availability was expected to slightly increase in 2024Q2. Meanwhile, lenders reported that demand from small businesses was unchanged, and demand from medium and large businesses slightly increased. Looking forward, demand for small, medium, and large business lending was expected to remain unchanged in 2024Q2.

Lenders also reported that default rates on loans to small and medium-sized firms slightly increased in 2024Q1 and were unchanged for large businesses. Looking forward to 2024Q2, default rates were expected to increase slightly for small businesses, increase for medium-sized businesses, and remain unchanged for large businesses. Losses in the event of default were unchanged for businesses of all sizes in 2024Q1.

A slight increase in the proportion of UK SMEs using external finance

The SME Finance Monitor⁶³ has previously identified that 50% of UK SMEs had used external finance during 2023Q3, which represented an increase compared to the start of 2023, when it stood at 41%. The latest published monthly rolling Finance Monitor report⁶⁴, covering the two months to November

2023, identifies that during this period there was a slight increase in the percentage of SMEs using external finance to 51%.

The upward trends during 2023 in the use of credit cards as the most used form of funding stabilised, remaining unchanged during October

⁶² <https://www.bankofengland.co.uk/credit-conditions-survey/2024/2024-q1>

⁶³ <https://www.bva-bdrc.com/wp-content/uploads/2023/11/SME-Monthly-Charts-Sept-2023.pdf>

⁶⁴ <https://www.bva-bdrc.com/wp-content/uploads/2024/01/SME-Monthly-charts-Nov-2023-Final.pdf>

and November 2023 from 2023Q3, with 20% of SMEs utilising this form of credit. The percentage of SMEs using overdrafts declined from 17% to 14% since 2023Q3 to November 2023. Whereas, over the same period, the use of bank loans/ mortgages increased slightly to 11%, leasing/

higher purchase remained unchanged at 11%. Grants also remained stable at 4%. The percentage of SMEs injecting personal funds into their business remained unchanged in November 2023 at 36%, and 22% of these businesses believed they had no choice in doing so.

The average interest rate on SME loans higher than 12 months previous

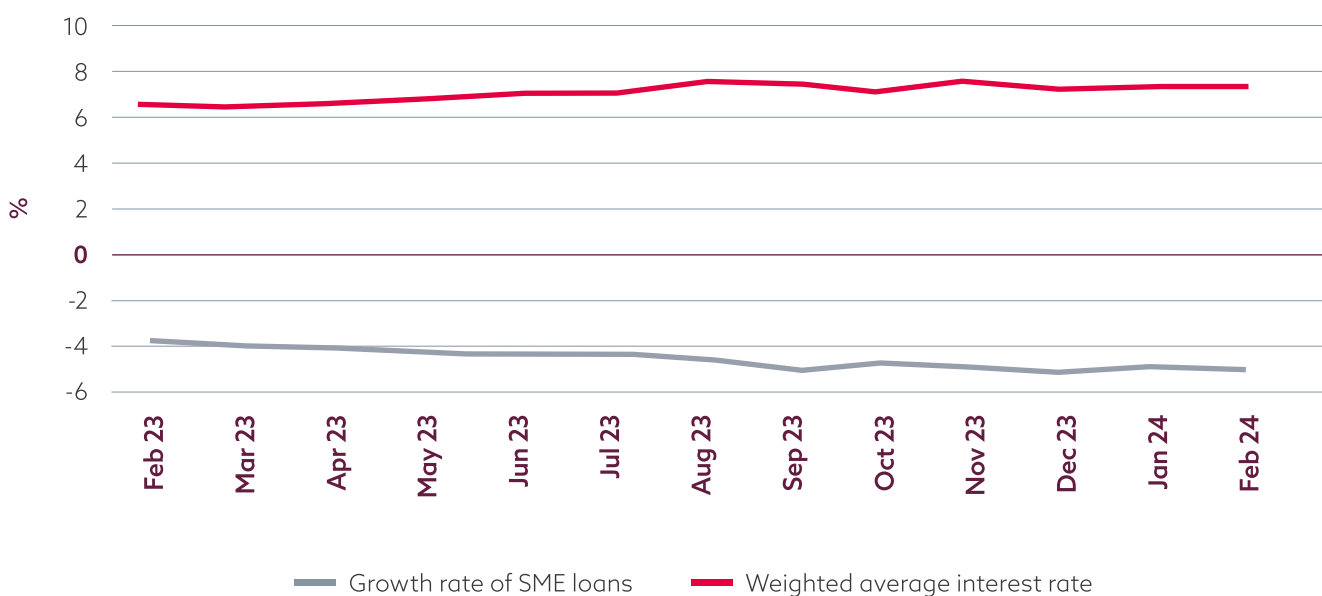
Figure 4.1 shows the monthly growth rate of SME loans and the weighted interest rate based on Bank of England data.⁶⁵ The growth rate of SME loans was -4.9% in February 2024 continuing the trend for decreasing loans to SMEs over the past 12 months (as well as over the longer-term from September

2021). Meanwhile, the average interest rate on SME loans in February 2024 was 7.55%, 1.12% higher than 12 months previously, and significantly higher than 2.65% in October 2021.

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

Figure 4.1.

Growth Rate of SME Loans and Interest Rate on SME Loans (%), February 2023 - February 2024



Source: Bank of England⁶⁶

⁶⁵ 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=TT&html.x=66&html.y=26&SeriesCodes=CFMZ6LD&UsingCodes=Y&Filter=N&title=CFMZ6LD&VPD=Y>

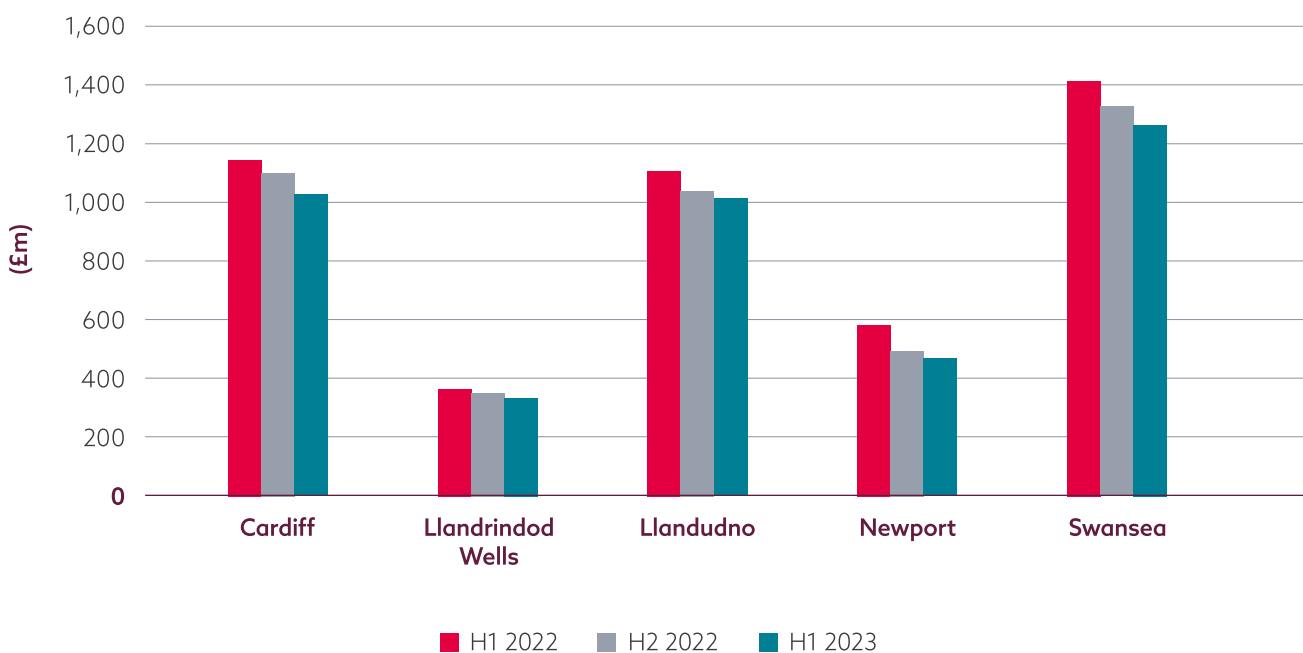
⁶⁶ Bank of England, Money and Credit, September 2023 <https://www.bankofengland.co.uk/statistics/money-and-credit/2023/september-2023>

A continued reduction in lending to Welsh SMEs

The most recently published UK Finance SME lending within UK postcodes data is for 2023 H1⁶⁷. This data shows a continued reduction in lending to Welsh SMEs during the first half of 2023, with the overall lending volume decreasing from £4.56bn in 2022 H1 to £4.11bn

in 2023 H1. Figure 4.2 shows the decline in SME lending by Welsh postcode area over this period. Across Wales, the Swansea postcode area received the most SME lending in 2023 H1 (£1.26bn), followed by Cardiff and Llandudno.

Figure 4.2.
SME Lending, Welsh Postcode Area (£m)



Source: UK Finance Postcode Lending Data, SMEs⁶⁸

⁶⁷ UK Finance, SME Lending within UK Postcodes, H1 2023 <https://www.ukfinance.org.uk/data-and-research/data/sme-lending-within-uk-postcodes>

⁶⁸ UK Finance *ibid.*

Equity investments

Equity investments in businesses tend to derive from a range of sources. These include venture capital funds, business angels, crowd funders, corporate investors, and Government funds. Such ventures can take place at different stages of business development.⁶⁹ As reported in the previous quarterly report, the latest published British Business Bank/Beaurest Small Business Equity Tracker⁷⁰ found that across the UK the decline in SME equity finance experienced during the second half of 2022 continued into 2023. Although Wales experienced the highest percentage increase in the number of deals announced between 2021 and 2022, with a 19% increase (70 deals), the total value of those deals reduced by 10% to £82m.

More recent data⁷¹ shows that during 2023, the vast majority of UK fundraisings continued to be made in London, which accounted for around 48% (1040 deals) of UK deals. The next largest share of deals was in the South East at 9% (198 deals), and the East of England 6.7% (146). Meanwhile, Wales accounted for 2.9% (64 deals) during 2023, a slight decline since 2022. Overall, the number of announced deals across the UK during 2023 was down by 25% from the previous year (from 2,917 in 2022 to 2,179 in 2023), and the total amount raised was down by around half (from £20.6bn in 2022 to £12bn in 2023).

A slight increase in the proportion of SMEs in Wales in the Caution credit rating category

The Bureau van Dijk FAME database of Companies House data was searched in April 2024 to seek evidence of the proportion of Welsh SMEs that fell into different credit risk categories. The April 2024 search yielded 93,611 SMEs with a known credit rating (a 2.8% increase of firms with a credit rating since the December 2023 search). It is important to recognise that this source may not identify Wales' smallest firms. Figure 4.3 reveals that of this total, 5.3% of SMEs in Wales were estimated

to be in the Highest risk credit rating category, slightly down from around 5.4% in December 2023. The Caution category comprised 49,150 SMEs or 52.5% of the total, slightly up from 51.9% of the total in December 2023. These proportions are generally 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 increase in the proportion of enterprises in the Caution category is of some concern.

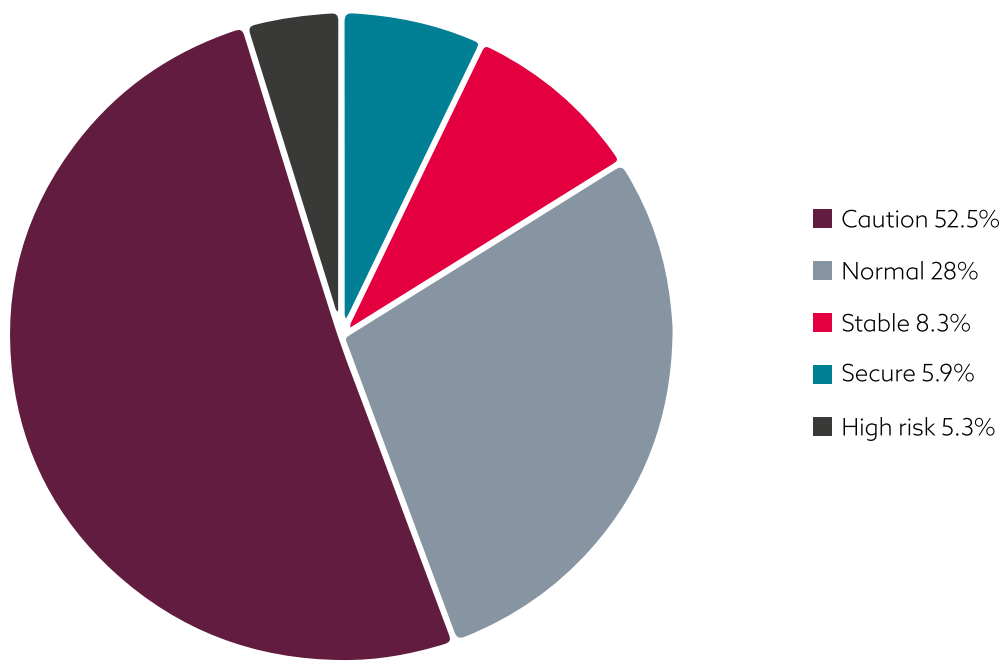
⁶⁹ https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf

⁷⁰ British Business Bank/Beaurest (2023). Small Business Equity Tracker. <https://www.british-business-bank.co.uk/small-business-equity-tracker-2023/>

⁷¹ Beaurest (2024) The Deal 2023. https://www.beaurest.com/wp-content/uploads/2024/02/Beaurest-The-Deal-FY-2023.pdf?utm_campaign=The%20Deal%202023&utm_medium=email&_hsmi=295209125&_hsenc=p2ANqtz--494TADOUzk4rYjbYLCMDslbkmcrzd4KalmUYPbjWsy_-Qmop5uvI14IA-TDcMWSMEQr7NzeagtdLcaHbZFbP8yHw&utm_content=295209125&utm_source=hs_automation

Figure 4.3.

Percentages of Welsh SMEs in different credit risk categories, April 2024



Source: FAME Database

- In 2023/24Q3 the Development Bank of Wales completed 123 investments with a total value of just over £48m. These investments were associated with 1,371 new and safeguarded jobs.
- Just under 58% of the value of investment in 2023/24Q3 was in mid and south west Wales, with around 22% of investment value in north Wales and 20% in south east Wales.
- The accommodation and food service sector and the construction sector together secured around 60% of Development Bank of Wales investment funds in 2023/24Q3.
- The highest number of jobs created or safeguarded by Development Bank investments in 2023/24Q2 were in the accommodation and food services sector.

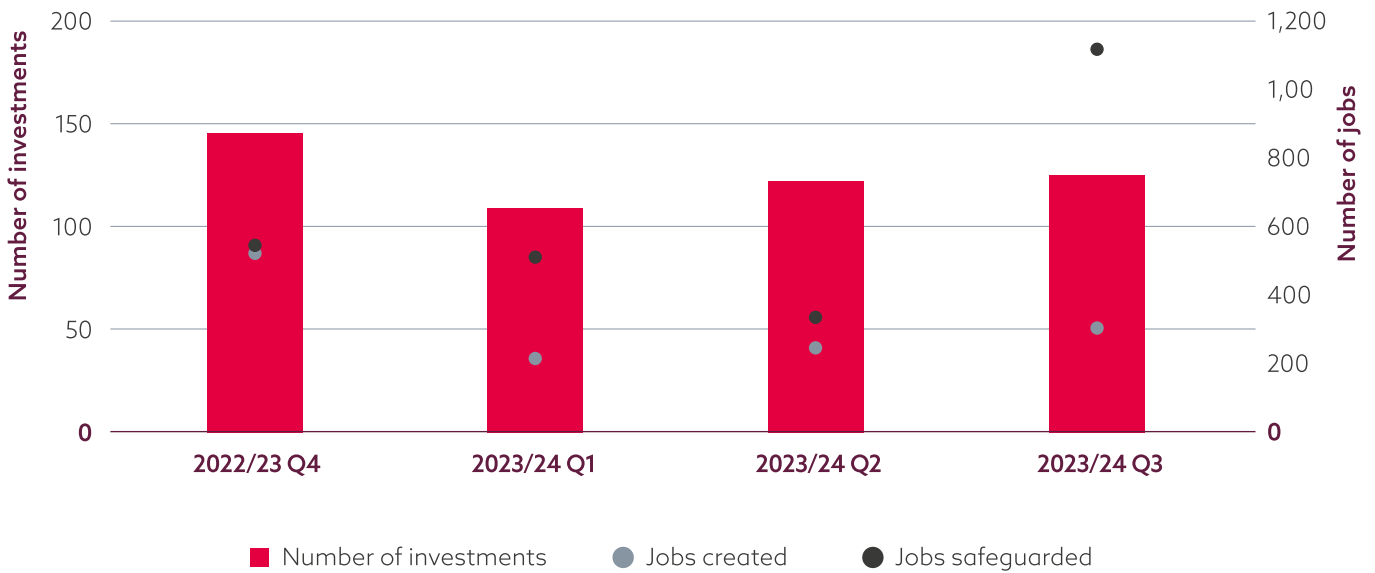
The Development Bank completed 123 investments in 2023/24Q3, supporting 1,371 jobs

Figure 5.1 shows that the number of investments made by the Development Bank of Wales in the third quarter of 2023/24 remained stable at 123 investments when compared with the previous quarter. The number of investments in 2023/24Q3 was only slightly below the number of investments made in third quarter of 2022/23 (128 investments). The number of new jobs created by Development Bank investments in 2023/24Q3 (almost 290 jobs) is above the number for the previous two quarters (both around 210 jobs). However, the number of jobs safeguarded in 2023/24Q3 is significantly above those safeguarded in the

previous quarters shown in figure 5.1, with the number of jobs safeguarded in 2023/24Q3 being over twice as high as those safeguarded in 2022/23Q4, and over three times as high as those safeguarded in 2023/24Q2. In total, 1,371 jobs (new and safeguarded) were supported by Development Bank investments in 2023/24Q3 compared with just over 560 jobs created or safeguarded in the previous quarter.

Caution is needed when interpreting quarterly investment data which can be volatile. The annual report, which will be published later this year, will provide an historical annual perspective on Development Bank investment trends.

Figure 5.1.
Investments and jobs created and safeguarded, 2022/23Q4 - 2023/24Q3



The total value of investments made during 2023/24Q3 was just over £48m

Whilst the total number of investments was stable in 2023/24Q3 compared with the previous quarter, figure 5.2 shows an upturn in the total value of investments in the third quarter of the 2023/24. The total investment value in 2023/24Q3 is also well above the value in the same quarter of 2022/23 (£31.5m). New debt and equity investment in 2023/24Q3 was £35.5m,

with a further £12m of property development. The value of new debt and equity investment in 2023/24Q3 is more comparable (although above) the total value of debt and equity in 2022/23Q4. Equity investment (not shown separately in Figure 5.2) has fallen from a high of £10.7m in 2022/23Q3 to almost £1.3m in 2023/24Q3.

Figure 5.2.
New Investment by investment type, £m, 2022/23Q4 - 2023/24Q3

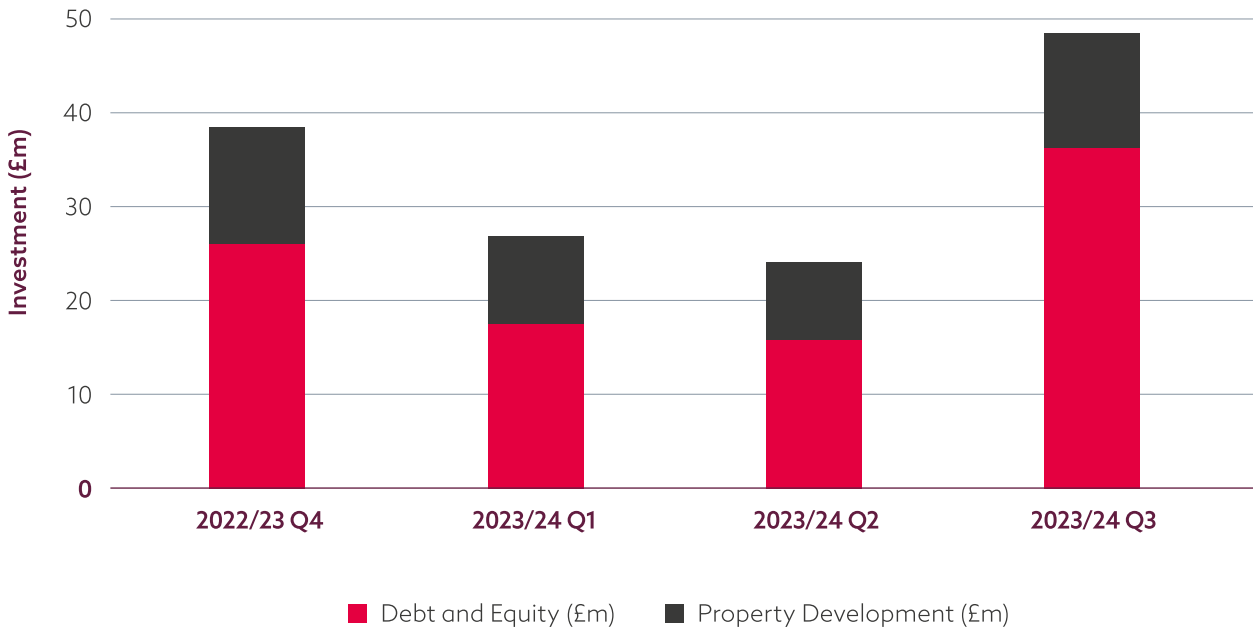


Figure 5.3 shows businesses in mid and south west Wales received around £28m of investment funds in 2023/24Q3, significantly above the values of investment funds received by businesses in the other two regions. In the previous quarter, businesses in mid and south west Wales also received the largest share of investment funds, although with

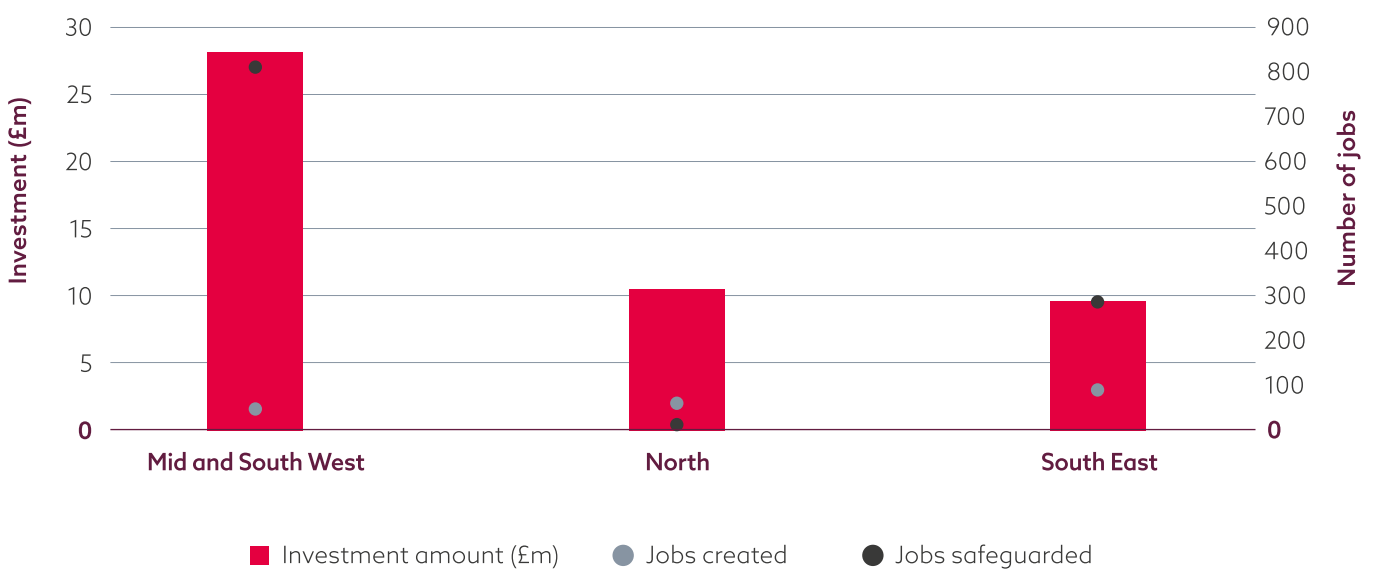
much less of a difference with the other regions. The south east Wales region, with the largest concentration of businesses in Wales, ordinarily secures the highest shares of investment funds. Mid and south west Wales secured 49 investments, compared with 46 investments in south east Wales and 28 investments in north Wales in 2023/24Q3.

On average, each Development Bank investment in 2023/24Q3 was connected to over £390,000 of investment

The average investment value in 2023/24Q3 is significantly higher compared with the previous quarter, which was an average of around £200,000 per investment transaction. The average investment value was highest in mid and south west Wales, and lowest in south east Wales. As noted earlier, the quarterly data contained in this report can be volatile.

Over 850 new or safeguarded jobs were supported by Development Bank investments in mid and south west Wales, with more than 360 jobs created or secured in south east Wales, and more than 150 jobs in north Wales.

Figure 5.3.
Investment values, £m, and jobs created and safeguarded by location 2023/24Q3

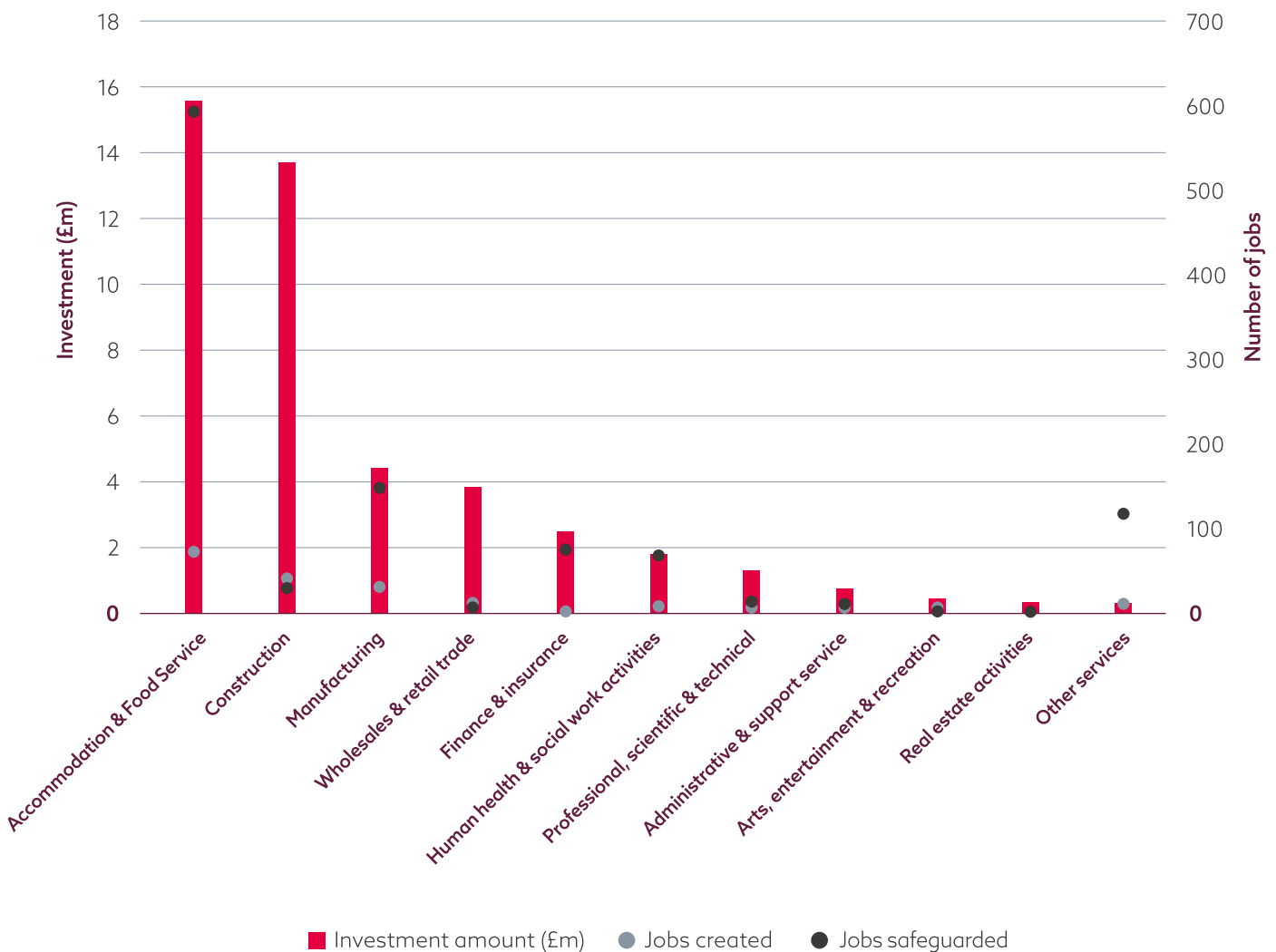


The accommodation and food services sector and the construction sector dominated investment lending in 2023/24Q3, accounting for £29m of funds

The accommodation and food services sector secured the highest value of investment funds (over £15.6m) and new jobs created and safeguarded (almost 650 in total) in 2023/24Q3. The construction sector secured over £13.4m of investments in 2023/24Q3. Almost 82% of lending to the construction

sector in 2023/24Q3 was connected with property development loans. Figure 5.4 shows that in addition to the accommodation sector, the manufacturing sector and in the other services sector supported the highest numbers of new jobs created and safeguarded.

Figure 5.4. Investment value, £m, and jobs by sector 2023/24Q3. Selected sectors with investment value above £0.5m



A recurring theme in the quarterly report series over the last year has been very mixed economic and business news. Of real importance given the concern vented from businesses has been some reduction in headline inflation rates. The Bank of England has continued to be cautious in its approach to interest rates with these maintained at 5.25% in the March MPC meeting. While headline inflation rates have fallen, the start of April saw widespread increases in costs for broadband, and significant increases for the majority of areas in Council Tax. However, the energy price cap for 2024Q2 fell from £1,928 to £1,690 per year. While the evidence in this report reveals the continued tightness in labour markets, there seem better prospects for economic growth in 2024 and through to 2025. These prospects would change markedly were there to be further increases in hostilities in the Middle East or in Eastern Europe with neither the Ukraine nor Gaza conflict seeing any signs of ending. Indeed, the OBR continues to explicitly model energy price shock scenarios in its CPI forecasts.⁷²

For the Welsh economy in the first quarter of 2024 key challenges remain to be overcome. The December 2023 Welsh Government Chief Economist's report⁷³ explained some of the longer-term challenges in terms of weak productivity growth, uneven trends in employment creation in different parts of Wales and slower relative population growth. In the

latter case the impacts of Brexit in slowing down in-migration from Eastern Europe have been pronounced and is known to be hitting some industries hard. The longer-term trend in Welsh productivity growth remains a critical concern and could lead to a widening of the prosperity gap between Wales and other UK regions through time. Whilst some of the labour market data is volatile, the recent increase in the economic inactivity rate Wales described earlier in this report is particularly concerning.

Prospects for the Welsh economy are also being impacted by the developments at Tata steel. The company announced a cut of 2,800 jobs in the UK steel industry at the start of 2024, with the majority of these expected to be lost in Port Talbot. There was an earlier than expected closure of the coke ovens at Port Talbot in March 2024 due to safety concerns relating to their 'significantly deteriorating operational stability',⁷⁴ with plans for the closure of both blast furnaces by the end of this year.

The Development Bank of Wales has continued its role in supporting small enterprises, with just over £48m of investment in the third quarter of 2023/24 and approaching £100m of investment during the first three quarters of the 2023/24 financial year. During the first three quarters of the year, over 2,600 jobs have been created or safeguarded across all sectors and regions of Wales.

⁷² <https://obr.uk/efo/economic-and-fiscal-outlook-march-2024/#chapter-1>

⁷³ <https://www.gov.wales/sites/default/files/publications/2023-12/welsh-budget-2023-chief-economists-report.pdf>

⁷⁴ <https://www.walesonline.co.uk/news/wales-news/major-closure-announced-tata-steel-28841896>

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 2024 and 2025
(% annual growth)

Forecasters	Date of forecast	2024 GDP % annual growth	2025 GDP % annual growth
IMF	January 2024	0.6	1.6
OECD	February 2024	0.7	1.2
NIESR	February 2024	0.9	1.2
Other non-city forecasters			
CBI	February 2024	0.8	1.6
Experian Economics	March 2024	0.4	1.3
Oxford Economics	March 2024	0.5	2.0
City forecasters			
Capital Economics	March 2024	0.0	1.3
JP Morgan	March 2024	0.0	0.1
KPMG	March 2024	0.3	0.9

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

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Economic Intelligence Wales



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developmentbank.wales

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