

Economic Intelligence Wales

Annual report

September 2024

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The ONS has advised on the production of this report but is not responsible for the views or statistics presented and has not validated the content.

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Development Bank of Wales Plc (Banc Datblygu Cymru ccc) is the holding company of a Group that trades as Development Bank of Wales. The Group is made up of a number of subsidiaries which are registered with names including the initials DBW. Development Bank of Wales Plc is a development finance company wholly owned by the Welsh Ministers and it is neither authorised nor regulated by the Prudential Regulation Authority (PRA) or the Financial Conduct Authority (FCA). The Development Bank of Wales (Banc Datblygu Cymru ccc) has three subsidiaries which are authorised and regulated by the FCA. Please note that neither the Development Bank of Wales Plc (Banc Datblygu Cymru ccc) nor any of its subsidiaries are banking institutions or operate as such. This means that none of the group entities are able to accept deposits from the public. A complete legal structure chart for Development Bank of Wales Plc can be found at [developmentbank.wales](https://www.developmentbank.wales).

Summary

The drafting of this report was completed on 4 July 2024.

Economic conditions

In their April 2024 World Economic Outlook, the **International Monetary Fund projected that global growth would remain steady at 3.2% in 2024 and 2025.**

Data from the ONS indicated that twelve-month Consumer Price Index (CPI) **inflation in the UK was 2.0% in May 2024, down from 2.3% in April 2024.**

In June 2024, the Bank of England maintained the **Bank rate at 5.25%.**

In 2024Q1 UK gross domestic product (GDP) was estimated to have **expanded by 0.6% on the quarter.** This follows a fall of 0.3% in 2023Q4.

In March to May 2024, total **UK vacancies were down by 156,000** from the level of a year ago. Estimates from PAYE show a rise in the number of payroll employees in the UK for May 2024 to 30.3m, an increase of 167,000 employees (or 0.6%) over the figure for May 2023. **In Wales the number of payrolled employees grew by 4,400 to 1.32m in the year to May 2024.**

The **UK economic inactivity rate was 22.3%** in the quarter February to April 2024. **In Wales** the comparative figure was **28.4%.**

The **value of goods exported from Wales decreased by 8.4% to £19.1bn in the year ending March 2024.**

The average forecast for UK GDP growth in 2024 increased to **0.6% in May 2024, up 0.1 percentage points from the average forecast made in April 2024.**

Business confidence improves

The Federation of Small Businesses (FSB) UK Small Business Index (SBI) **of small business confidence returned to positive**

in 2024Q1, rising 20.5 points to reach +5.5, following seven successive negative quarterly readings. The domestic economy continued to be the top concern for small businesses as a potential barrier to growth.

The SME Finance Monitor 2024Q1 reported that **30% of all responding UK SMEs (excluding starts) experienced growth over the previous 12 months.** The current economic climate was also cited as the key barrier to SME growth in this survey.

The number of business births in Wales in 2024Q1 was 2,795, whilst the number of business deaths in Wales during the same period was 3,035. **The number of business deaths in Wales continues to be greater than business births,** as it has been since 2021Q2.

The ONS Business Insights and Conditions Survey (BICS) for 1 to 30 April 2024 (Wave 108) reported that **42.8% of Welsh businesses expected their performance would increase in the year ahead (UK 37.3%).**

ONS data showed that **UK house prices increased by 1.1% in the 12 months to April 2024.** The average house price in Wales in April 2024 was £208,000, representing a 0.4% increase from April 2023.

The S&P Global/CIPS UK **construction purchasing managers' index registered 54.7 in overall construction activity in May 2024,** up from 53 in April, well above the 50 mark that differentiates expansion from contraction.

Supply of, and demand for, finance

Lenders reported that the availability of credit for small business increased, remained unchanged for medium sized 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.

Summary

The SME Finance Monitor report, covering the three months to end of February 2024, found a **decrease in the percentage of SMEs using external finance** to 44% (49% in 2023Q4).

UK Finance SME lending within UK postcodes data shows **a continued reduction in lending to Welsh SMEs during the second half of 2023**, with the overall lending volume decreasing from £4.111bn in 2023H1 to £4.055bn in 2023H2.

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.**

Development Bank of Wales activity

The Development Bank of Wales completed **491 investments in 2023/24**, with a total value of just over £125m. These investments were associated with **almost 3,400** new and safeguarded jobs.

Around 70% of investments by value in 2023/24 were accounted for by loans and equity, with the remaining approximately 30% connected with property development investments.

Micro-businesses received almost 53% of debt and equity investment funds during 2023/24, accounting for more than 1,000 new and safeguarded jobs.

Firms located in mid and south west Wales received 44% of the total value of investments during 2023/24, with firms in south east Wales receiving 34%, and those in north Wales receiving 23% of investment funds.

The cumulative number of investments made by the Development Bank in the **five years to the end of 2023/24 was 2,387**, with the value of investments at almost £567m after excluding the £92m Covid-19 Wales Business Loan Scheme (CWBLs).

This is the sixth Economic Intelligence Wales annual report. The report provides a review of economic data relevant to SME development in Wales and a summary of the investment activities of the Development Bank of Wales during the fourth quarter of their financial year 2023/24, and an analysis of the Bank's performance in terms of jobs created and safeguarded by investment activity. 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 then 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 during the 2023/24 financial year. The final section provides some overall conclusions to the report.

This report is largely based on publicly available data (generally reported in calendar years) together with a special analysis of data provided by the Development Bank of Wales (mostly reported in financial years). Due to differences in reporting periods, there will be some slight temporal mismatch of data within this report.

The drafting of this report was completed on 4 July 2024.

In the period covered by this report, Economic Intelligence Wales implemented its expansion plans. New academic partners, Bangor Business School and the Enterprise Research Centre, joined the research collaboration. These new members are producing reports and developing further insights into the real-time issues affecting the Welsh economy.

Over the last year, Economic Intelligence Wales has published reports on the following topics:

- R&D-intensive businesses in Wales: innovation and contribution to turnover and employment¹,
- Covid-19 Welsh Government financial interventions: final analysis of administrative and survey data²,
- Wales SME Access to Finance report: Sub-National and Devolved Nation analysis, published in collaboration with the British Business Bank³.

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

² [Covid-19 Welsh Government financial interventions - Dev Bank \(developmentbank.wales\)](#)

³ [Wales SME Access to Finance Report \(developmentbank.wales\)](#)

- The International Monetary Fund's global growth forecast for 2024 was upgraded, by 0.3 percentage points, to 3.2%.
- The Bank of England maintained the Bank Rate at 5.25% in June 2024, noting that restrictive monetary policy was bearing down on inflationary pressures.
- Twelve-month Consumer Price Index (CPI) inflation in the UK was 2.0% in May 2024, down from 2.3% in April 2024.
- In 2024Q1 UK gross domestic product (GDP) was estimated to have grown by 0.6% on the quarter, following a fall of 0.3% in 2023Q4.
- In Wales the economic inactivity rate increased 3.7 percentage points on the year to 28.4% in the quarter February 2024 to April 2024. The equivalent UK figure was 22.3% (0.8 percentage points above the rate a year ago).

Global prospects

The International Monetary Fund's (IMF) World Economic Outlook⁴ published in April 2024, noted that the global economy continued to be resilient, with persistent growth, and inflation returning to target. This was despite numerous shocks in recent years including interruptions to supply-chains resulting from the Covid-19 pandemic; the repercussions of the war in Ukraine causing a global energy and food crisis; and a marked increase in inflation that generated a cost-of-living crisis and prompted monetary policy tightening on a global scale.

Given these factors, the IMF's latest projections were for global growth to be a steady 3.2% during both 2024 and 2025, the same increase as in 2023. The IMF global growth projection for 2024 was 0.3 percentage point higher than the forecast in the IMF's October 2023 World Economic Outlook⁵. These projections were similar to the forecasts published in May 2024

in the OECD's Economic Outlook,⁶ where global growth was projected at 3.1% in 2024, and with a slight increase to 3.2% in 2025 resulting partly from stronger real income growth and lower policy interest rates. The OECD observed, however, that the overall macroeconomic policy mix is likely to remain restrictive in most economies over the next two years, with real interest rates falling slowly, and only modest prospects to reduce fiscal deficits in most countries - China is seen as an exception, with low interest rates and substantial extra fiscal support anticipated in 2024 and 2025.

The IMF forecast for global headline inflation is for a fall from 6.8% in 2023 to 5.9% in 2024, and a further decrease to 4.5% in 2025. Advanced economies are expected to return to their inflation targets earlier than emerging market and developing economies.⁷

⁴ <https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024>

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

⁶ https://www.oecd-ilibrary.org/economics/oecd-economic-outlook_16097408

⁷ <https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024>

UK inflationary pressures ease

According to the ONS, the annual rate of producer output (factory gate) prices increased by 1.7% in the year to May 2024.⁸ This compares to a 1.1% rise in the year to April 2024. The largest upward contribution to the annual output inflation rate in May 2024 came from refined petroleum products (2.54 percentage points) and “other outputs” (1.12 percentage points). Chemicals and paper products had the largest downward contribution to the annual output inflation rate in the year to May 2024, with a negative contribution of 1.44 and 1.14 percentage points respectively.

Data from the ONS showed that twelve-month Consumer Price Index (CPI) inflation in the UK was 2.0% in May 2024, down from 2.3% in the twelve months to April 2024.⁹ The CPI annual

rate in May 2024 was the lowest since July 2021, when it was also 2.0%, and substantially below the recent 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 May 2024 was from motor fuels with prices rising 2.3% in the year to May 2024, compared with a fall of 0.3% in the year to April. The largest downward contribution came from food.

The Bank of England maintained the Bank Rate at 5.25% in June 2024. The Monetary Policy Summary for June 2024 noted that headline CPI inflation had fallen to the 2% target and: “The restrictive stance of monetary policy was weighing on activity in the real economy, was leading to a looser labour market and was bearing down on inflationary pressures”.¹⁰

GDP first quarterly estimate shows the UK economy has increased in 2024Q1

Following declines of 0.1% in 2023Q3 and 0.3% in 2023Q4, UK real gross domestic product (GDP) is estimated to have increased by 0.6% in 2024Q1 according to figures released by the ONS.¹¹ The ONS noted that early estimates of GDP are subject to revision (positive or negative) and most experts “...consider other factors, while taking into account the latest data. For example, it is advisable to consider the broader picture, such as the depth, diffusion (spread), and duration of the change in GDP...”.¹² Compared with a year ago, real GDP is estimated to have increased by 0.2% in 2024Q1.

By sector, output in UK services increased by 0.7% in 2024Q1 after three consecutive quarters of decline. The largest positive contribution to output in services growth was from the transport and storage sub-sector, with this growing by 3.7%, largely driven by an increase of 6.4% in land transport services via pipelines (excluding rail transport). There were negative contributions to output growth in 2024Q1 from accommodation and food service activities (decreased by 0.2%) and activities of households as employers; undifferentiated goods and services activities of households for own use (a fall of 3.4%). Following a decline of 0.4% in

⁸ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/may2024>

⁹ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/may2024>

¹⁰ <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/june-2024>

¹¹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2024>

¹² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2024>

2023Q4, consumer facing services increased by 0.6% in 2024Q1, with the ONS indicating that this was largely driven by retail trade, except of motor vehicles and motorcycles.

In the UK, output in production increased by 0.8% in 2024Q1, with this following a decrease of 1.1% in 2023Q4. Manufacturing was the largest contributor to the increase in production, with 8 out of the 13 manufacturing sub-sectors growing

in 2024Q1, and the sector overall expanding by 1.4% in the quarter. Here, the largest positive contributions by sub-sector were a 5.7% increase in the manufacture of transport equipment, and a 3.1% growth in the manufacture of basic metals and metal products. The largest negative contributors to manufacturing performance in 2024Q1 were in the manufacture of textiles, wearing apparel and leather (declining 3.6%).

UK business investment increased in 2024Q1

Following a 1.4% rise in 2023Q4¹³, provisional results published by the ONS show that UK business investment

increased by 0.9% in 2024Q1¹⁴. This was 0.6% below where it was in 2023Q1.

Job vacancies continue to fall in the UK

The number of UK job vacancies was 904,000 in the period March to May 2024, falling by 12,000 from December 2023 to February 2024.¹⁵ Vacancy numbers for the UK fell on the quarter for the 23rd consecutive period. In March to May 2024, total vacancies were down by 156,000 from the level of a year ago, although they remained 108,000 above their pre-pandemic (January to March 2020) level. The largest proportional decreases in vacancies in March to May 2024 from the previous quarter were in the industries of electricity, gas, stem and air conditioning supply (declining by 11.8%) and wholesale & retail trade; repair of motor vehicles and motorcycles (decreasing by 8.7%).

Early estimates from Pay as You Earn Real Time Information¹⁶ show a rise in the number

of payroll employees in the UK for May 2024 to 30.3m, an increase of 167,000 employees (or 0.6%) over the figure for May 2023.

In the year to May 2024, the increase in payrolled employees in the UK was largest in the health and social work sector (an increase of 155,000 employees or 3.6%) and smallest in the accommodation and food service activities sector (a decrease of 60,000 employees or -2.7%).¹⁷ A number of other sectors experienced a fall in payrolled employees between May 2023 and May 2024, with these including manufacturing, construction, wholesale & retail, accommodation and food services, information and communication, and administrative support. The percentage increases in payroll employees over the year was highest in

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

¹⁴ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/januarytomarch2024provisionalresults>

¹⁵ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/june2024>

¹⁶ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/june2024>

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

energy production and supply (7.4% or 8,000 employees), and health and social work (as noted above, 3.6% or 155,000 employees).

In Wales the number of payrolled employees grew by 4,400 (or 0.3%) to 1.32m in the year to May 2024.¹⁸ The UK regional data on payroll employees by sector is updated less frequently, but the data to April 2024 for

Wales shows that the percentage increase in payroll employees over the year was highest in energy production and supply (8% or 425 employees).¹⁹ Over the year to April 2024, there was an increase of 5,700 (or 2.5%) payrolled employees in the health and social work sector in Wales, and 2,400 (or 3.7%) in public administration and defence; and social security.

Quality issues relating to labour market data for Wales

Recent labour market data for Wales, collected via the Labour Force Survey (LFS) has some quality issues. These issues are the result of reductions in the sample size due to challenges in maintaining response rates. The data for Wales currently have very large confidence intervals

and the statistics have a new lower-level status of “official statistics in development”, so it is advised that they be used with caution. Data users are therefore advised to take account of information from a variety of sources.

The unemployment rate increases in the UK but decreases in Wales

According to figures from the ONS, the unemployment rate in the UK (all aged 16+, seasonally adjusted) was 4.4% in the quarter February to April 2024, 0.4 percentage point above the figure for the quarter February to April 2023.²⁰ The equivalent figure for Wales was 3.5%, down 0.6 of a percentage point.²¹ The highest

UK regional unemployment rates in the three-months ending April 2024 (the latest available at the time of writing) were in the East Midlands (5.6%), West Midlands (5.1%), North West (5.1%), and London (5.0%), while the lowest rates were in Northern Ireland (2.2%), Wales (3.5%), South East (3.7%), and South West (also 3.7%).²²

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

¹⁹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted/current>

²⁰ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#unemployment>

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

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

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

During the year to May 2024, the UK unemployment-related benefit claimant count (not seasonally adjusted) increased by 100,000 to 1.63m people.²³ In Wales 63,700 people claimed unemployment-related benefits in May 2024 (equal to 3.4% of the working age population, compared with a figure of 3.9% for the UK), an increase of 1,800 in the number of claimants compared with May 2023.²⁴

The Welsh unitary authority areas with the highest proportion of working age population claiming unemployment-related benefits, according to the data for May 2024, were Newport (5.0%), Blaenau Gwent (4.2%), Cardiff (4.1%), Torfaen (3.8%), and Conwy (3.7%), and those with the lowest proportions were Powys (2.4%), Monmouthshire (2.4%), Gwynedd (2.7%), Bridgend (2.7%), and Flintshire (2.8%).

Economic inactivity increases in the UK and Wales

According to ONS LFS data, the UK economic inactivity rate (seasonally adjusted, all aged 16 to 64 years) was 22.3% in the quarter February to April 2024.²⁵ This was 0.8 percentage point above the rate a year ago (February to April 2023).²⁶ The ONS noted that the increase in UK economic inactivity on the year was largely

because of students and those who were long-term sick.²⁷ The economic inactivity rate in Wales increased 3.7 percentage points on the year to 28.4% in the quarter February to April 2024.²⁸ However as noted above, a degree of caution should be applied when using LFS data due to on-going quality issues.

A fall in Welsh construction industry output from 2023Q3 to 2023Q4

Figure 2.1 highlights the trend in Welsh production, construction and market services indices from 2020Q4 to 2023Q4. The index of market services has remained relatively steady throughout this time period, while the index of production, although stable up until 2022Q4, has experienced marginal declines in the last four quarters. Figure 2.1 shows that there was strong growth in the construction

index in quarters 2022Q4 to 2023Q3, driven by several large construction projects, but that the index decreased in 2023Q4. The Bank of England's Agents' summary of business conditions report for 2023Q4 noted that for the UK as a whole construction output volumes were falling, and "some of the slack from lower new housing and commercial development is being taken up by repair and maintenance".²⁹

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>

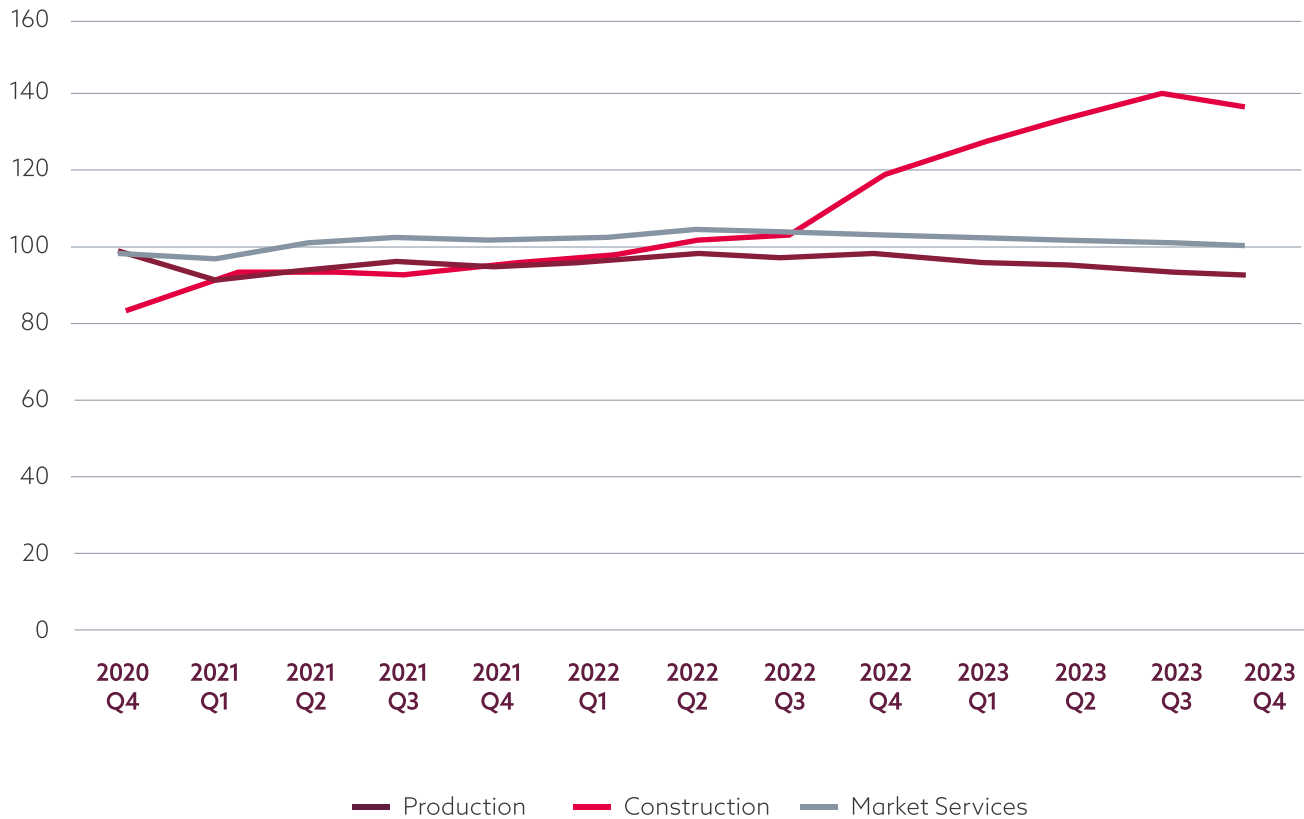
²⁶ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

²⁷ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#economic-inactivity>

²⁸ <https://www.gov.wales/labour-market-overview-june-2024-headline-statistics-html>

²⁹ <https://www.bankofengland.co.uk/agents-summary/2023/2023-q4>

Figure 2.1
Welsh output indices: trend 2020Q4 – 2023Q4 (2019=100)



The value of goods exported from Wales decreased in the year to 2024Q1

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 2024Q1 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 twelve months ending March 2024 compared with the previous twelve months.³⁰ The value of goods exported from Wales decreased by 8.4% to £19.1bn in the twelve

months ending March 2024 (compared with a decrease of 4.3% in England, 13.8% in Scotland, and an increase of 11.3% in Northern Ireland).

There were a number of falls in total export values by products in Wales over the year to March 2024.³¹ Mineral Fuels total exports fell to £3.4bn in the year ending 2024Q1, from £4.6bn in the previous twelve months, a decrease of 26.2%. Total exports of Chemical products fell to £2.3bn in the year ending 2024Q1, from £2.9bn in the previous twelve months, a decrease

³⁰ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-first-quarter-2024>

³¹ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-first-quarter-2024#datasets>

of 18.2%. However, the value of exports of Machinery and Transport products from Wales increased to £8.3bn in the year ending 2024Q1, from £8.0bn in the previous twelve months.

The total exporter count in Wales in 2024Q1 was 3,167 signifying virtually no change from 2023Q1 (using the Whole Number Method³²). This compares to a drop of 3.2% for the UK as a whole in the same time period.³³ HM Revenue & Customs published trade volume data for the year to 2024Q1 showed that a net mass of 7.8 billion kilograms were exported from Wales, a decrease of 10.4% from the previous twelve months.³⁴ Note that trade volumes for Wales (exports and imports) are dominated by Petroleum, Petroleum Products and Related Materials (SITC 33).

In the year to March 2024 the value of goods imported fell in Wales by 12.6% to £20.9bn when compared to the previous twelve months. This compared to decreases in the value of imports in England of 8.5%, in Scotland of 21.4%, and Northern Ireland of 3.3%.³⁵

The total importer count in Wales in 2024Q1 was 8,170, a decrease of 5.4% from the figure in 2023Q1. In the UK the total importer count decreased by 1.3% over the same period.³⁶ Trade volume data published by HM Revenue & Customs, for the year to 2024Q1, showed that a net mass of 18.3 billion kilograms were imported into Wales, an increase of 1.5% from the previous year to the end of 2023Q1.³⁷

UK economy forecasts

HM Treasury do not publish forecasts for the UK economy during the pre-election period due to "Cabinet Office guidance and the precedent from previous elections". Therefore, the latest available data at the time of writing are for May 2024 (with the June edition to be published after the General Election on 4 July 2024).³⁸

In the comparison of independent forecasts received for the May 2024 publication of HM Treasury Forecasts for the UK Economy³⁹, the average forecast for UK GDP growth in

2024 was 0.6%. This was up 0.1 percentage points from that projected in the April 2024 publication.⁴⁰ In the May 2024 publication, the average forecast for GDP growth in 2025 was 1.2%, 0.1 percentage points below the forecast made in April 2024. Appendix 2 of this report shows a summary of selected GDP forecasts for the UK for 2024 and 2025, along with forecasts for the LFS Unemployment rate, and the growth in prices for both Consumer Price Index (CPI), and Retail Price Index (RPI) inflation.

³² "Whole number method": A business counts as 1 in each region they have employees.

³³ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-first-quarter-2024>

³⁴ <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

³⁵ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-first-quarter-2024>

³⁶ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-first-quarter-2024#datasets>

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

³⁸ <https://www.gov.uk/government/collections/data-forecasts>

³⁹ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-may-2024>

⁴⁰ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-april-2024>

- Small business confidence returns to positive.
- The domestic economy remained the top concern for small businesses as a barrier to growth.
- Business deaths in Wales continue to exceed business births.

Business population

As reported in the most recent quarterly report, there were an estimated 246,375 active SMEs in Wales in 2023, with the vast majority, 234,615, falling in the micro enterprise category employing fewer than nine people.⁴¹ The provisional figures for 2023 show that the total number of SMEs in Wales fell by around 7,000 from 2022. Most of these losses were micro enterprises. Amongst SMEs, the three largest sectors, 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. As previously reported, the total number of enterprises in Wales has experienced a steady decline over the period 2021-23, with the total number of enterprises (including large enterprises) falling from a little under 264,000 to around 248,000.

Small business confidence returns to positive

After seven successive negative quarterly readings, the Federation of Small Businesses (FSB) UK Small Business Index (SBI)⁴² of small business confidence returned to positive in 2024Q1, rising 20.5 points to reach +5.5.⁴³ Figure 3.1 shows the trend of the FSB SBI between 2022Q1 and 2024Q1. Small business revenues

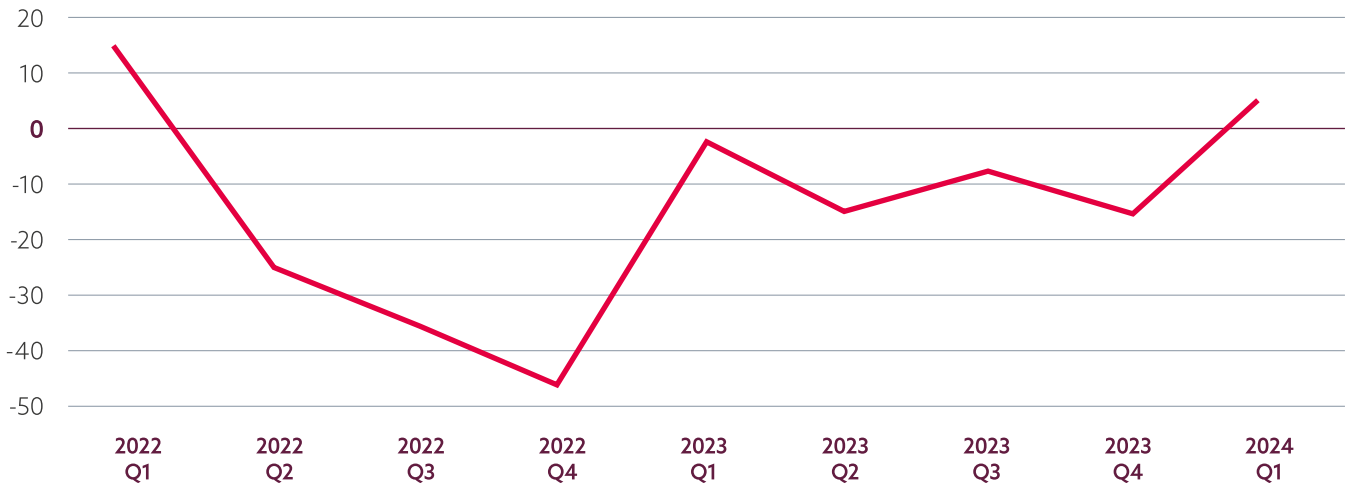
declined during 2024Q1 on the previous quarter, although the FSB pointed out this may well reflect long standing annual cyclical patterns. Both revenue and growth expectations for 2024Q2 were notably more positive, with 45.7% of businesses expecting their revenues to rise and 52.4% expecting to expand.

⁴¹ <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/enterprises-by-sizeband-area-year>

⁴² 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.'

⁴³ <https://www.fsb.org.uk/resource-report/small-business-index-quarter-1-2024.html>

Figure 3.1
UK Small Business Confidence Index, 2022Q1 – 2024Q1



Source: FSB Small Business Index, 2023Q4 ⁴⁴

Large differences in sectoral confidence persisted in 2024Q1. Business confidence in Manufacturing was up in 2024Q1 to +19.2, making it the most positive sector in 2024Q1, a significant improvement on the previous quarter when it stood at minus 26.2. Professional, Scientific, and Technical activities returned to positive territory recording +14.3, up from -4.7

points in 2023Q4. The Wholesale and Retail sector registered +2.1, also up from on the previous quarter. Not all sectors returned to positive, however, and the Accommodation and Food services sector registered -11.8 (albeit representing a significant improvement on the -73.0 it registered in 2024Q4), and it remained the least positive sector.

The domestic economy continues to remain the top concern for SMEs

The domestic economy remains the top concern for small businesses as a potential barrier to growth, cited by 64.6% of SMEs in 2024Q1. Consumer demand remained the next most cited concern (35.6%), whilst access to appropriately qualified staff was the third most cited barrier to growth (24.8%) in 2024Q1.

The Business Confidence Monitor (BCM) of the Institute of Chartered Accountants in England and Wales (ICAEW) for 2024Q1 also reported an improvement in overall business confidence, now standing at +14.4%, up from +4.2 during the previous quarter, and surpassing the 2010-2019 average of +7.2 for this index⁴⁵. Across the UK, businesses in Yorkshire and Humber (+26) and

⁴⁴ FSB Small Business Index, 2024 Q1.

⁴⁵ 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>

the North West (+25) were the most confident, whilst those in the East Midlands (+7) and West Midlands (+7) were the least confident. Business confidence in Wales improved significantly from the previous quarter and in 2024Q1 was +18, the third highest region, up from -0.4 in 2023Q4. By sector, the most positive during 2024Q1 were: Banking, Finance and Insurance (+21), Business Services (+18.7), Property (+17.7), Transport and Storage (+17.4) and Construction (+16.2), which improved significantly from -30.5 in the previous quarter. Regulatory requirements were the most significant challenge cited by businesses (41%), with customer demand (32%), competition (29%), and staff turnover (24%) the next most commonly cited growing challenges to business performance in this index.

The SME Finance Monitor 2024Q1⁴⁶ 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, 48% of those employing 10-49, 35% employing 1-9, and 28% of those with no employees, experienced growth in the previous 12 months. The current economic climate also remained the most cited barrier to SME growth in this survey (31%), 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 (14%) also remained key concerns raised by SME respondents to this survey. Meanwhile, 41% of SME respondents said they had been 'significantly impacted' and an additional 34% 'somewhat impacted' by increasing costs during the 3 months to February 2024.

Business deaths continue to exceed the number of business births

The ONS reported an estimated total of 85,485 UK business births during 2024Q1; this was a 6.1% increase on 2023Q1.⁴⁷ The ONS also reported that the number of UK business deaths in 2024Q1 was 88,460, which was 17.2% lower than the same quarter in the previous year. In 2024Q1, therefore, the number of business deaths continued to exceed business births across the UK. Figure 3.2 reveals the variation

of quarterly business births and deaths in Wales over the past 17 quarters.⁴⁸ The number of business births in Wales in 2024Q1 was 2,795, whilst the number of business deaths in Wales during the same period was 3,035. The number of business deaths in Wales, therefore, continues to be greater than business births as it has done since 2021Q2.

⁴⁶ <https://www.bva-bdrc.com/wp-content/uploads/2024/04/SME-Monthly-charts-Feb-2024-Final.pdf>

⁴⁷ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/januarytomarch2024>

⁴⁸ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticslowlevelgeographicbreakdownuk>

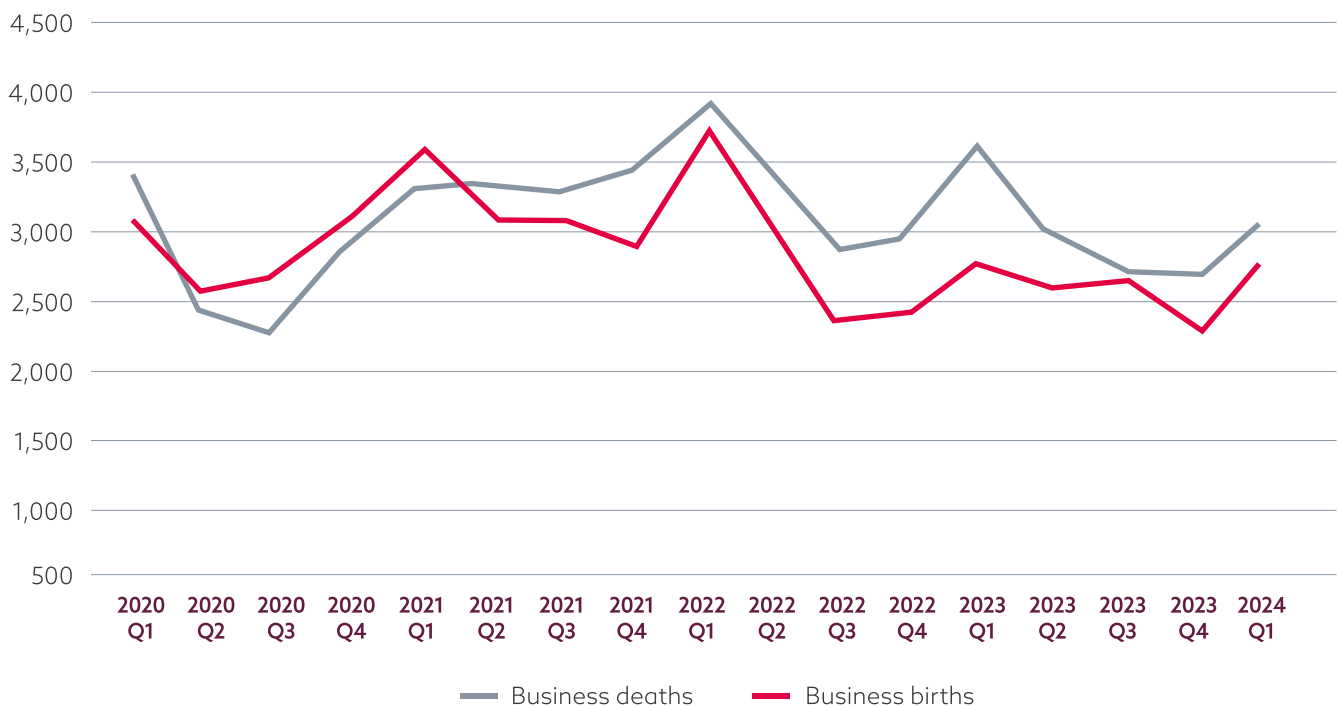
Business insights and conditions survey

The ONS Business Insights and Conditions Survey (BICS) for 1 to 30 April 2024 (Wave 108)⁴⁹ reported that 24.8% of Welsh businesses surveyed experienced increased turnover in April 2024 (UK 26.7%). Some 33.3% of surveyed businesses in Wales expected turnover to increase in June 2024 against a UK average of 30.6%.

The BICS also reveals that, during April, 18.2% 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, the highest in the UK, and 23.6% of surveyed businesses in Wales reported that the prices they had paid for goods and services had increased from the previous month. Some 20.3% of Welsh firms were able to report that they expected their employment to increase in June 2024 (UK 18.3%), and just 4.7% believed they were at moderate risk of insolvency (UK 6.9%).

Figure 3.2
Quarterly Business Demography in Wales, 2020Q1 – 2024Q1



Source: ONS Business demography, quarterly experimental statistics, UK⁵⁰

⁴⁹ <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

⁵⁰ ONS, *ibid.*

Compared to the same period in 2023, some 28.0% of Welsh businesses believed their performance had increased (UK 26.3%), with 20.1% believing it had decreased (UK 19.8%). In terms of expectations for 2024, 42.8% of Welsh businesses expected their performance would

increase in the year ahead (UK 37.3%). A higher proportion of surveyed businesses in Wales were expecting an increase in performance than every other part of the UK except Scotland, which was only slightly higher at 42.9%.

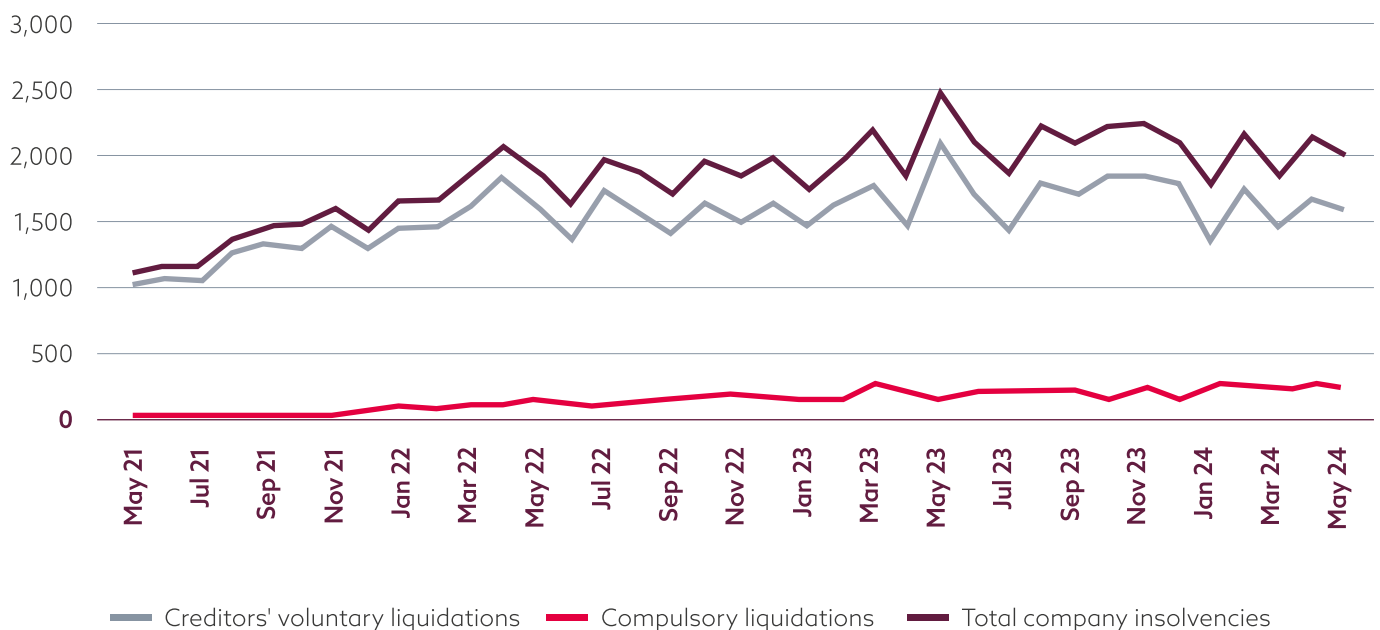
Business insolvencies

Figure 3.3 shows the trend of registered company insolvencies in England and Wales from May 2021 to May 2024. The number of insolvencies fluctuated significantly throughout 2023, and this has continued into 2024. The total monthly insolvencies in May 2024 were 2,006. This overall rate has continued to be driven mainly by creditors' voluntary liquidations, which stood at 1,590 in

May 2024, whilst the number of compulsory liquidations were 271 during the same month.

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. During 2024Q1 there were 415,000 County Court claims, down 7% on the previous quarter, and, of these, 343,000 (83%) were money claims, down 8% on the previous quarter.⁵¹

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



Source: UK Government Insolvency Monthly Statistics⁵²

⁵¹ <https://www.gov.uk/government/collections/civil-justice-statistics-quarterly#2024>
⁵² <https://www.gov.uk/government/collections/company-insolvency-statistics-releases>

Housing and commercial property

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

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

UK house prices increased in the year to April 2024

The latest ONS data, which captures both cash and mortgage-based purchases, shows that UK house prices increased by 1.1% in the 12 months to April 2024.⁵³ The average UK house price in April 2024 was £281,000, which was £3,000 higher than 12 months previously. The average house price in Wales in April 2024 was £208,000, representing a 0.4% increase from April 2023.

The Bank of England reported in May⁵⁴ that net mortgage approvals for house purchases were 61,100 in April (little changed on the previous month). Net mortgage lending was £2.4bn, 0.2% higher than a year earlier, representing the fastest annual growth since

October 2022 (this followed a 0.1% contraction in March). Meanwhile, the Bank also reported that the effective interest rate (the actual interest rate paid on newly drawn mortgages) increased by 1 point to 4.74% in April.

The last quarterly report reported that the total number of transactions during 2023 was around 10% lower than pre-pandemic levels, and those involving a mortgage were around 20% lower⁵⁵. As previously highlighted, 1.6 million homeowners will need to remortgage during 2024 when current fixed-term rates come to an end.⁵⁶

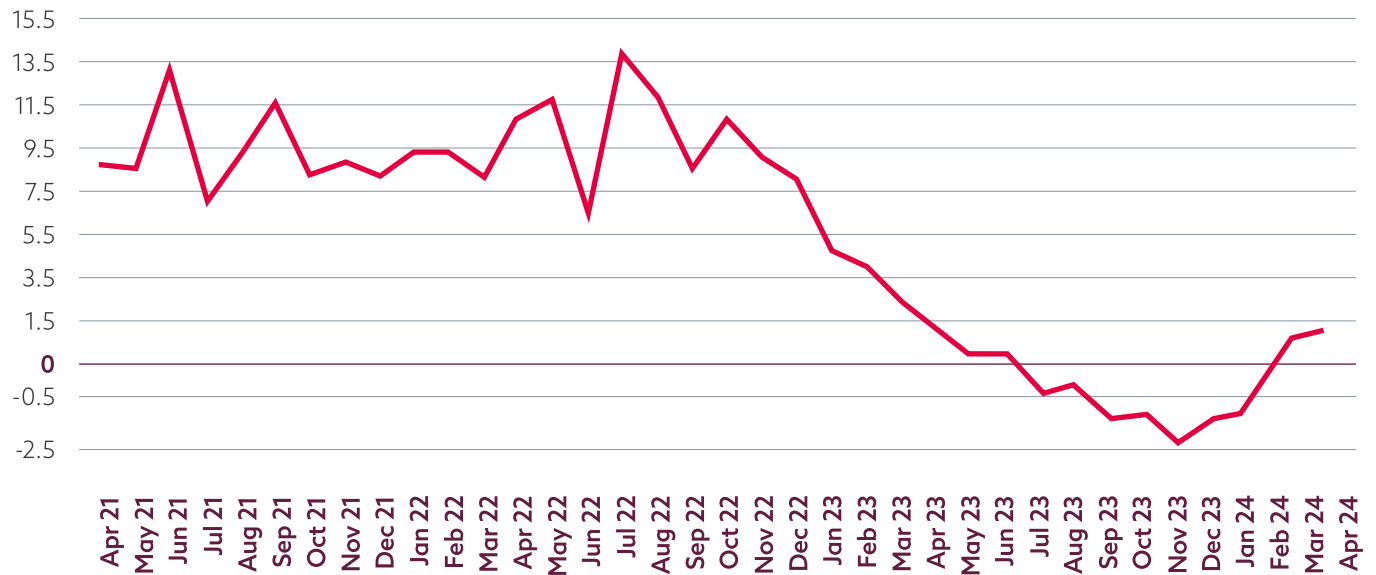
⁵³ <https://www.gov.uk/government/statistics/uk-house-price-index-for-april-2024/uk-house-price-index-summary-april-2024>

⁵⁴ FT (31.05.24) <https://www.ft.com/content/f7070bac-6312-4156-b390-8fd36ef40c39#post-5a121537-f17f-4f3b-bfd4-ef726e8921e6>

⁵⁵ Nationwide (December 2023) <https://www.nationwidehousepriceindex.co.uk/reports/house-prices-fall-1-8-percent-over-the-course-of-2023>

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

Figure 3.4
ONS UK House Price Index, Annual Percentage Change, April 2021 – April 2024



Source: ONS House Price Index⁵⁷

A slowdown in UK housing investment, but construction activity increases

In May, the Bank of England reported that housing investment is expected to fall by 4.5% in 2023, by 3.75% in 2024, and by 0.5% in 2025. In recent quarters, falls in investment have been partly driven by a fall in new dwellings, whilst spending on home improvements has been resilient.⁵⁸ Conversely, the S&P Global/CIPS UK construction purchasing managers' index registered 54.7 in overall construction activity

in May 2024, up from 53 in April, well above the 50 mark that differentiates expansion from contraction. For the first time since May 2022, all three monitored categories increased during the same period. Although the expansion in activity on residential projects was only marginal, there was a more notable increase in the commercial category, which experienced a two-year high, as well as softer growth in civil engineering.⁵⁹

⁵⁷ ONS (March 2024) op. cit.

⁵⁸ Bank of England (May 2024) Monetary Policy Report <https://www.bankofengland.co.uk/monetary-policy-report/2023/may-2023>

⁵⁹ S&P Global UK Construction PMI (June 2024)

UK commercial property values declined in 2023

As noted in the last quarterly report, UK commercial property values experienced significant declines during 2023⁶⁰. Some commercial property owners are facing higher debt costs and are being forced to sell. During 2023 redemptions from UK property funds were particularly high with about £1.4 billion leaving the market⁶¹. Other owners are seeking to refinance loans and hold on to existing assets. New lending to UK commercial real estate fell to a record low in 2023, with the proportion of finance to support new acquisitions falling to the lowest level since records began in 2007, but real estate lenders have focused more on refinancing existing debt helping to avoid fire sales⁶².

Some commercial property landlords are expecting commercial property investment to improve during 2024,⁶³ but the market for large offices and shopping centres continues to be badly affected. Although the post-pandemic trends related to working from home have reduced demand for commercial property - vacancy rates in major European cities are now between 10-20%⁶⁴ - some major commercial landlords are pointing to an increase on the number of workers re-entering office space during the last 12 months.⁶⁵ Nevertheless, significant improvements in this market are unlikely during 2024.⁶⁶

⁶⁰ Financial Times (28.02.24) 'UK landlords hunt for deals in real estate slump'. <https://www.ft.com/content/825b5aac-ff47-4011-b5d6-1df7fa135da2>

⁶¹ Financial Times (27.10.23) 'How investors lost their love for UK property funds'. <https://www.ft.com/content/99b8f61a-ae45-4961-8513-83fd3e6ee967>

⁶² Financial Times (02.05.24). 'New loans for UK commercial real estate hit historic low'. <https://www.ft.com/content/664e2c02-5a54-4e95-aebe-0e35e8edf411>

⁶³ Financial Times (14.11.23) 'Landsec predicts buying opportunities in commercial property'. <https://www.ft.com/content/c82d0149-67d7-442f-891d-abf64e1ecc21>

⁶⁴ Financial Times (12.01.24) 'Refinancing challenges loom for Europe's commercial real estate'. <https://www.ft.com/content/b798f80e-5d9d-4577-a234-dc3e98fe0b23>

⁶⁵ Financial Times (17.505.24). 'Top London landlord say return to the office is gathering pace'. <https://www.ft.com/content/13efa905-7177-44d0-a401-307b58da469d>

⁶⁶ Financial Times (27.10.23) Op. cit.

- The proportion of UK SMEs using external finance decreased slightly at the start of 2024.
- The average interest rate on SME loans was higher than 12 months previous.
- A continued reduction in lending to Welsh SMEs.

Supply of, 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 2024.⁶⁷

Lenders reported that the availability of credit (defined as willingness and ability to supply credit) to the corporate sector was unchanged in 2024Q1. The availability of credit for small business increased, remained unchanged for medium sized businesses, and slightly

increased for large business. Overall availability was expected to increase slightly in 2024Q2. Meanwhile, lenders reported that demand from small businesses was unchanged, whilst 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 businesses slightly increased, and remained unchanged for large businesses during 2024Q1. Looking forward to 2024 Q2, 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.

⁶⁷ <https://www.bankofengland.co.uk/credit-conditions-survey/2024/2024-q1>

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

The SME Finance Monitor⁶⁸ has found that 46% of UK SMEs had used external finance during 2023. Whilst 19% were still repaying government backed Covid-19 pandemic funding during the year, 31% of SMEs were using some form of 'core' finance, primarily consisting of credit cards (17%), bank overdraft (13%) and/or bank loan (11%), and 21% of SMEs used some form of 'other' finance, primarily leasing/hire purchase (10%). The latest published monthly rolling Finance Monitor report,⁶⁹ covering the three months to end of February 2024, identifies that during this period there was a decrease in the percentage of SMEs using external finance to 44%, down from 49% in 2023Q4.

Although credit cards remained the most used form of funding for SMEs, their use declined slightly from 20% to 16% in the three months to the end of February 2024. Meanwhile, the percentage of SMEs using overdrafts (13%), bank loans/mortgages (10%), and leasing/hire purchase (10%) remained largely unchanged. Grants reduced slightly to 2% from 4%. The percentage of SMEs injecting personal funds into their business remained unchanged at 36%, with 21% of these businesses believing they had no choice in doing so.

The average interest rate on SME loans remains 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 data⁷⁰. The growth rate of SME loans was -4.6% in April 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 April 2024 was 7.59%, 1.07% higher than 12 months previously, and significantly higher than the 2.65% in October 2021.

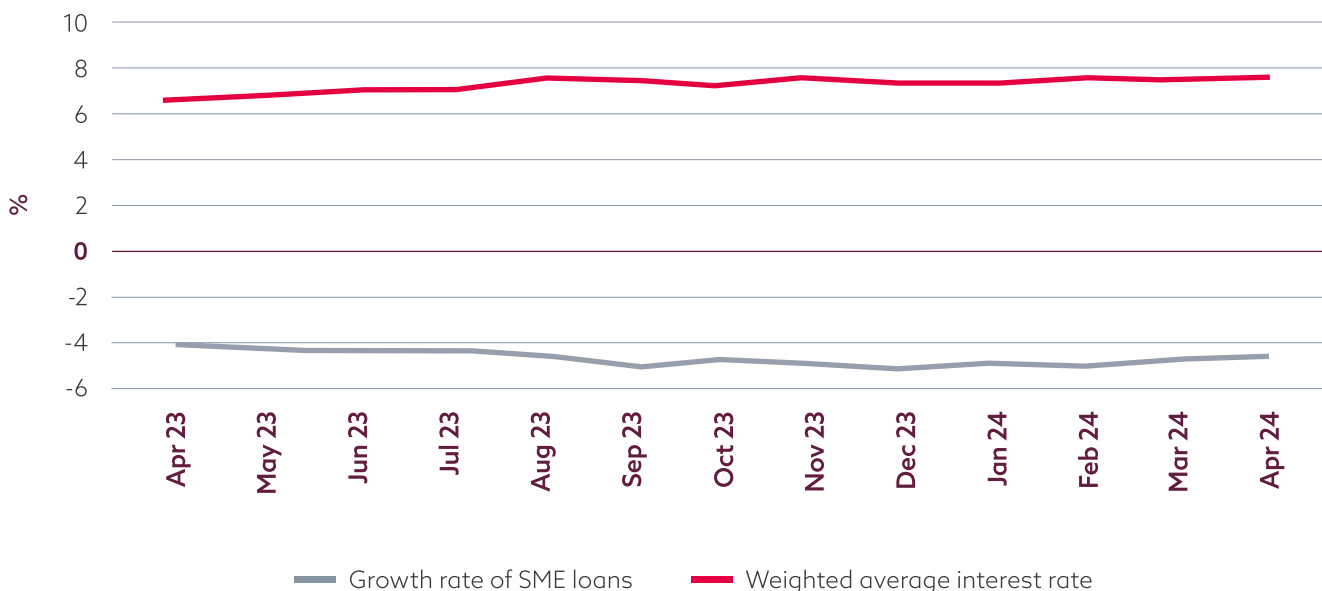
⁶⁸ https://www.bva-bdrc.com/wp-content/uploads/2024/03/BVABDRC_SME_FM_Q423_Full_Report.pdf

⁶⁹ <https://www.bva-bdrc.com/wp-content/uploads/2024/04/SME-Monthly-charts-Feb-2024-Final.pdf>

⁷⁰ 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>

Figure 4.1

Growth Rate of SME Loans and Interest Rate on SME Loans, April 2023 – April 2024



Source: Bank of England⁷¹

At its June meeting the Bank of England’s MPC again agreed to maintain the current interest rates at 5.25%. In May, the UK CPI inflation hit the bank of England’s 2% target for the first time since July 2021⁷². The Bank of England had previously announced that it expected CPI to return to its 2% target in the near

term. Higher than expected rises in prices for services (service inflation was 5.7%), however, continue to place questions over how soon the Bank will make rate reductions, although some analysts are expecting the Bank to potentially cut rates at its August meeting.⁷³

A continued reduction in lending to Welsh SMEs

The most recently published UK Finance SME lending within UK postcodes data is for 2023 H2.⁷⁴ This data shows a continued reduction in lending to Welsh SMEs during 2023. Overall lending volumes decreased from £4.590bn in 2022 H1 to £4.295bn in 2022 H2 and then to £4.111bn in 2023 H1 and £4.055bn in 2023 H2.

Whilst overall lending declined in 2023 H2, Figure 4.2 shows there was an increase in lending in the Llandrindod Wells and Swansea postcode areas during the most recent period. Across Wales, the Swansea area postcode received the most SME lending in 2023 H2 (£1.301bn), followed by the Llandudno and Cardiff postcode areas.

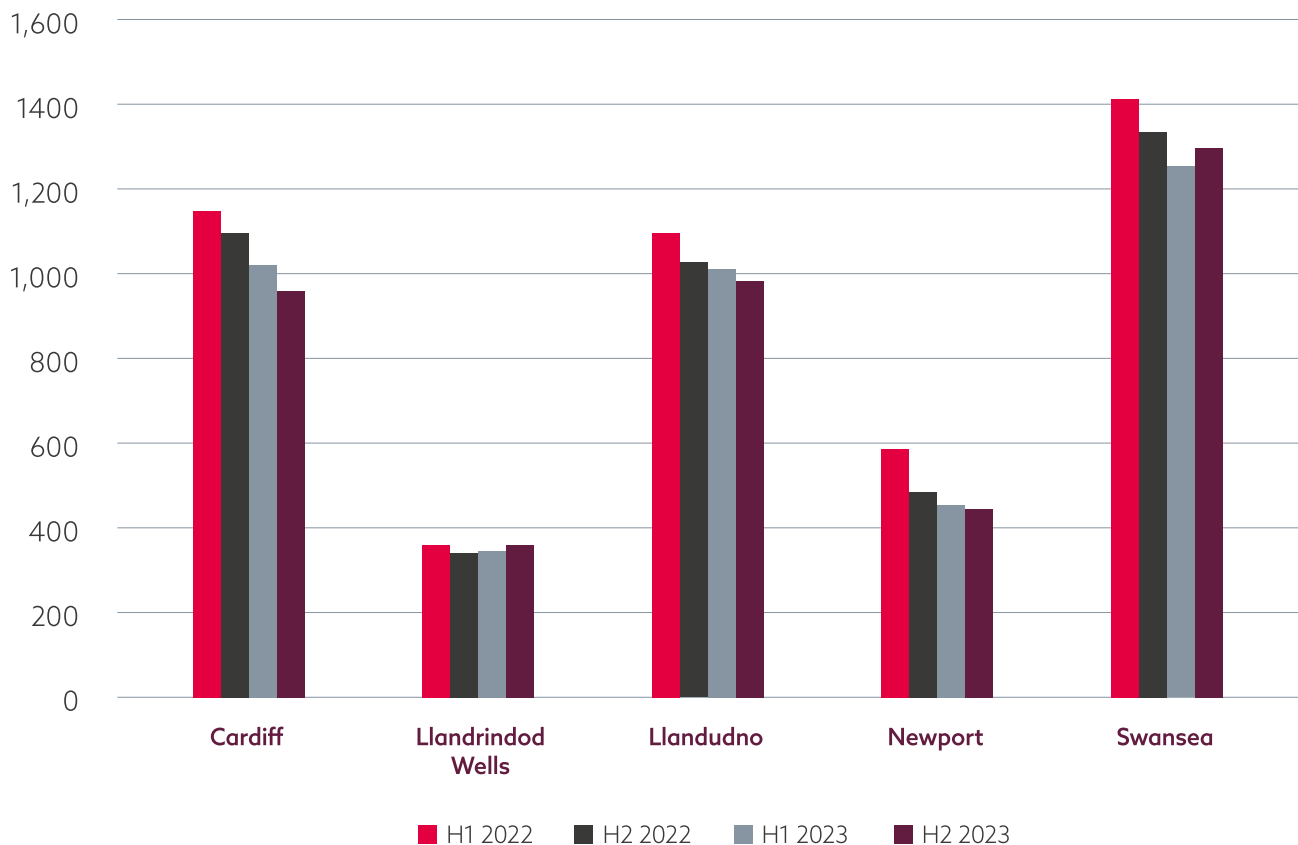
⁷¹ Bank of England, Money and Credit, April 2024 <https://www.bankofengland.co.uk/statistics/money-and-credit/2024/april-2024>

⁷² <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/june-2024>

⁷³ <https://www.ft.com/content/1c7beb93-4809-407d-bc85-7e320287a1d6>

⁷⁴ UK Finance, SME Lending within UK Postcodes, H2 2023 <https://www.ukfinance.org.uk/data-and-research/data/sme-lending-within-uk-postcodes>. Note that the totals for Wales in this data source do not include some Shrewsbury postcode areas that are in Wales.

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



Source: UK Finance Postcode Lending Data, SMEs⁷⁵

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.⁷⁶ As reported in the last quarterly report, the latest published British Business Bank/Beauhurst Small Business Equity Tracker⁷⁷ 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 data⁷⁸ has shown that during 2023 the vast majority of UK fundraisings continued to be made in London, which accounted for

⁷⁵ UK Finance *ibid.*

⁷⁶ [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)

⁷⁷ British Business Bank/Beauhurst (2023). Small Business Equity Tracker. <https://www.british-business-bank.co.uk/small-business-equity-tracker-2023/>

⁷⁸ Beauhurst (2024) The Deal 2023. https://www.beauhurst.com/wp-content/uploads/2024/02/Beauhurst-The-Deal-FY-2023.pdf?utm_campaign=The%20Deal%202023&utm_medium=email&_hsmi=295209125&_hsenc=p2ANqtz--494TADOUzk4rYjYLCMDslbkmczd4KalmUYPbjWsy_-Qmop5uvI14IA-TDcMWSMEQr7NzeagtdLcaHbZFBpRl8yHw&utm_content=295209125&utm_source=hs_automation

around 48% (1,040 deals) of UK deals. The next largest share of deals was in the South East of England 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).

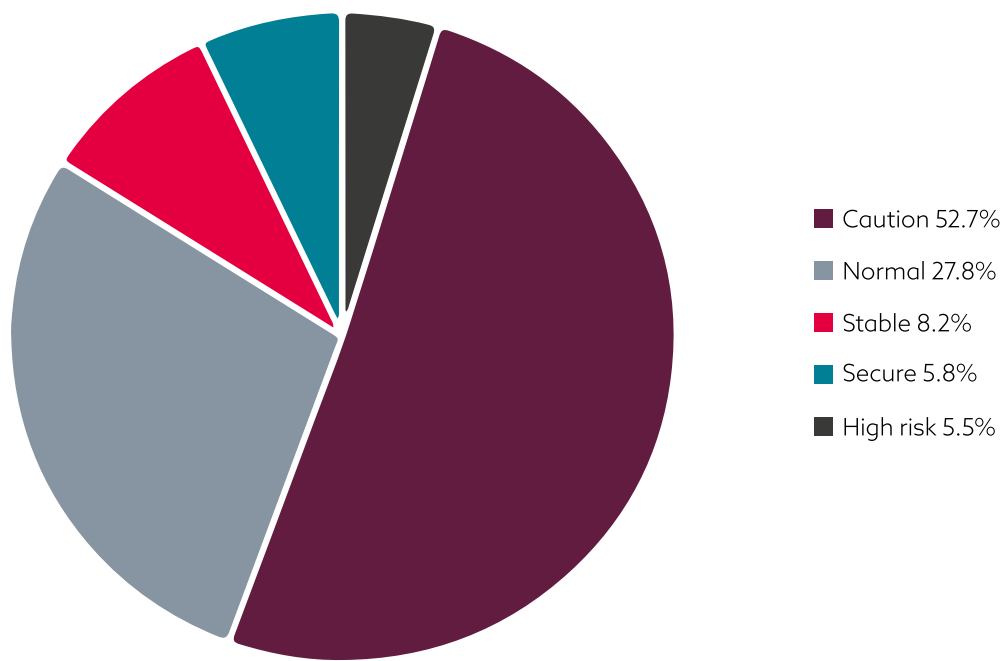
Little change in the proportion of SMEs in Wales in each credit rating category in the second quarter

The Bureau van Dijk FAME database of Companies House data was searched in June 2024 to seek evidence of the proportion of Welsh SMEs that fell into different credit risk categories. The June 2024 search yielded 95,023 SMEs with a known credit rating (a 1.5% increase of firms with a credit rating since the April 2024 search). It is important to recognise that this source may not identify Wales' smallest

firms. Figure 4.3 reveals that of this total, 5.5% of SMEs in Wales were estimated to be in the Highest risk credit rating category, slightly up from around 5.3% in April 2024. The Caution category comprised 50,049 SMEs or 52.7% of the total. 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.

Figure 4.3

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



Source: FAME Database

- The Development Bank of Wales completed 491 investments in 2023/24, with a total value of just over £125m. These investments were associated with almost 3,400 new and safeguarded jobs.
- Around 70% of investments by value in 2023/24 were accounted for by loans and equity, with the remaining approximately 30% connected with property development investments.
- Micro-businesses received almost 53% of debt and equity investment funds during 2023/24, accounting for more than 1,000 new and safeguarded jobs.
- Firms located in mid and south west Wales received 44% of the total value of investments during 2023/24, with firms in south east Wales receiving 34%, and those in north Wales receiving 23% of investment funds.
- The cumulative number of investments made by the Development Bank in the five years to the end of 2023/24 was 2,387, with the value of investments at almost £567m excluding the £92m Covid-19 Wales Business Loan Scheme (CWBLS).

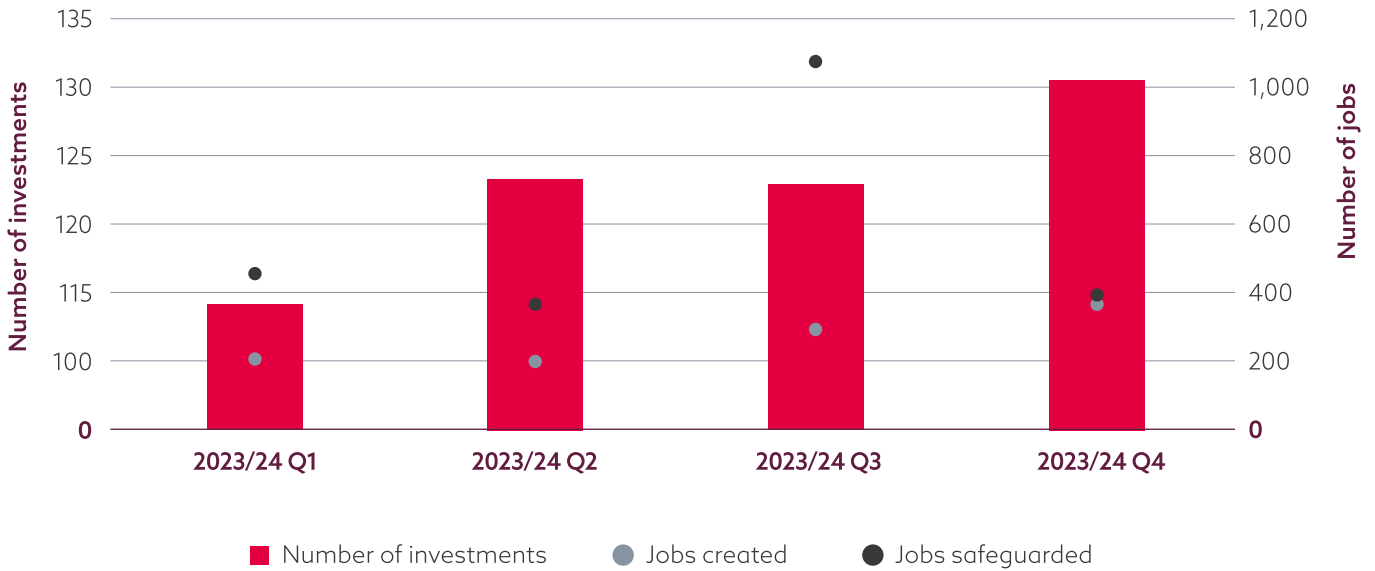
A steady increase in the number of investment transactions made by the Development Bank during 2023/24

The pattern of investment transactions during the 2023/24 financial year, shown in Figure 5.1, was similar to previous years. In general, the first quarter of the financial year is characterised by the lowest number of investments, and with the final quarter accounting for the highest number of investments. The Development Bank of Wales

made over 130 investments in the final quarter of 2023/24, which created and safeguarded over almost 770 jobs. During the full financial year, a total of 491 investments were made, creating or safeguarding almost 3,400 jobs.

Figure 5.1

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

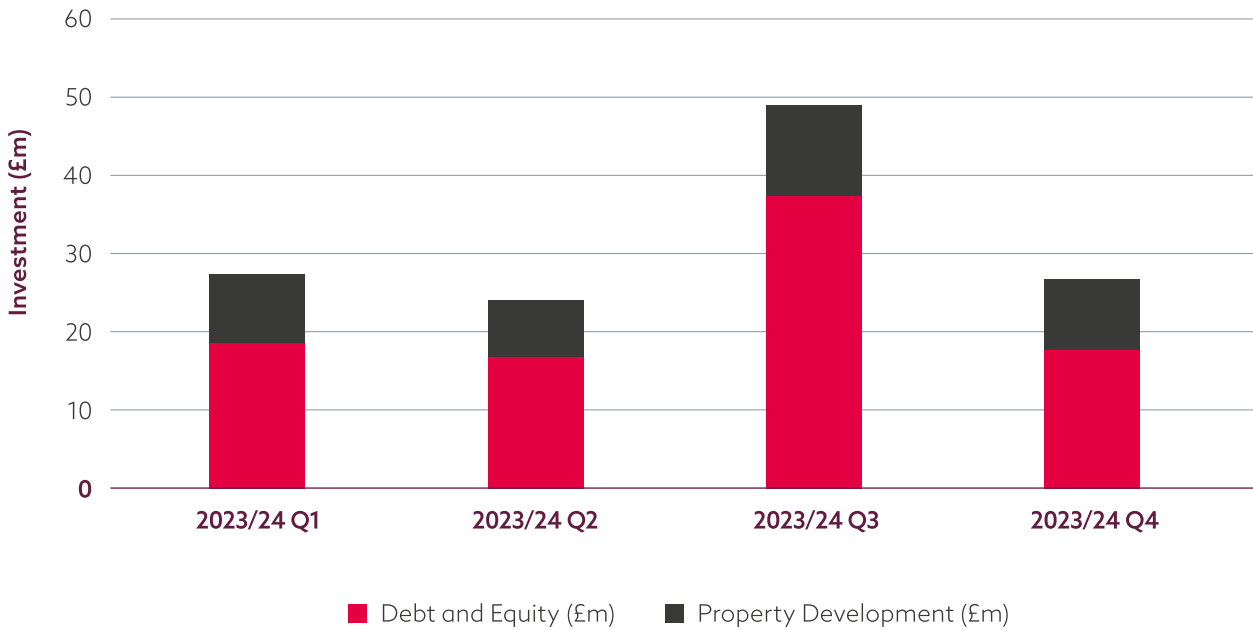


The total value of investments made during 2023/24 was just over £125m

The pattern of investment values does not match that shown in Figure 5.1. This is due to a small number of large investments made during the third quarter of the 2023/24 financial year that increased the overall value of investments made in that quarter. Figure 5.2 shows that the funds invested during the final quarter of the year was slightly up on the amounts invested in the second quarter of the year, and marginally below the investment value in the opening quarter of the year. Loans and equity funding accounted for 70% of the

investment value during the 2023/24 financial year, with the remaining 30% accounted for by property development investments. The value of equity investment totalled £12.2m for the 2023/24 financial year, with £4.8m of this invested in the final quarter. The value of equity investments in 2023/24 is however around half the value of equity investments made in the previous financial year (£23m), although the 2022/23 year was particularly strong in terms of equity investments.

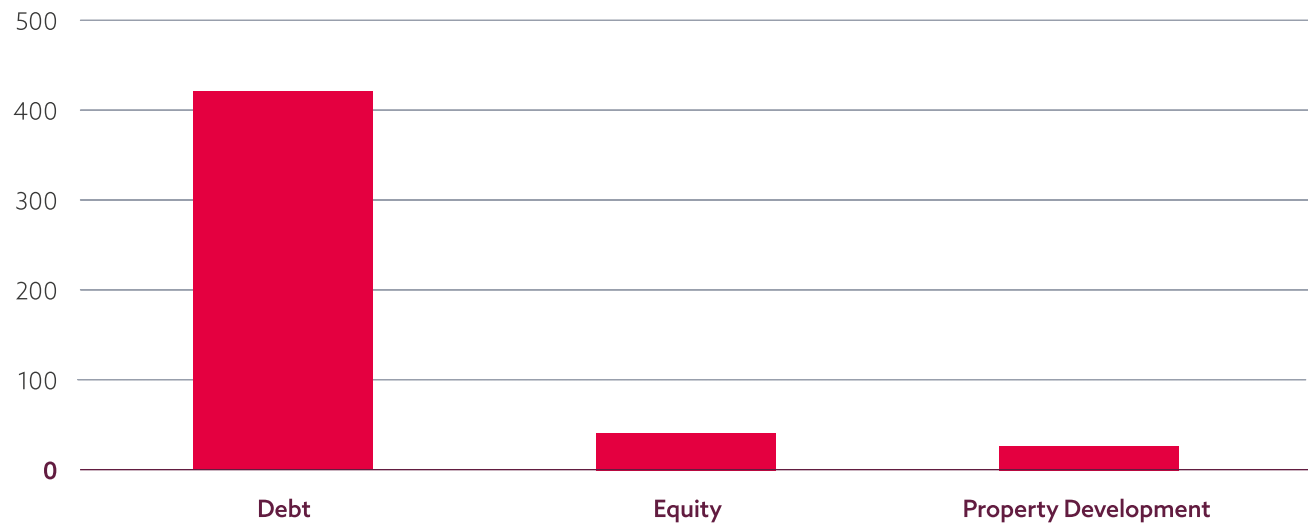
Figure 5.2.
New Investment by investment type, £m, 2023/24 Q1-Q4



In total 463 loan/debt and equity investments were made in 2023/24, comprising 426 loan investments and 37 equity

investments. In addition, the Development Bank made 28 property development investments during the year (Figure 5.3).

Figure 5.3
Number of investments 2023/24



Firms in the micro-business category accounted for over 80% of the number of debt and equity investments, and nearly £46m of funds during 2023/24

Figure 5.4 shows the distribution of debt and equity investment funds and jobs created and safeguarded by business size category. Almost 53% of the value of Development Bank debt and equity investments in 2023/4 were to micro-businesses (firms with less than 10 employees), with these firms accounting for 30% of the jobs created and safeguarded during the year. Around 32% of debt and equity investment was to small firms (those with 10-49 employees) during 2023/24, with these businesses creating

or safeguarding almost 1,359 jobs (41% of total jobs) during the year. Large firms (more than 249 employees) and medium-sized firms (50-249 employees) together accounted for less than 10 investments, but around 16% of debt and equity investment value. These businesses accounted for just below 30% of total jobs, the majority of which are safeguarded as opposed to new jobs. Overall, in 2023/24 each £1m of debt and equity funding (excluding property investment) created or safeguarded over 38 jobs.

Figure 5.4
Debt and equity investment, £m, and jobs created and safeguarded by business size category during 2023/24

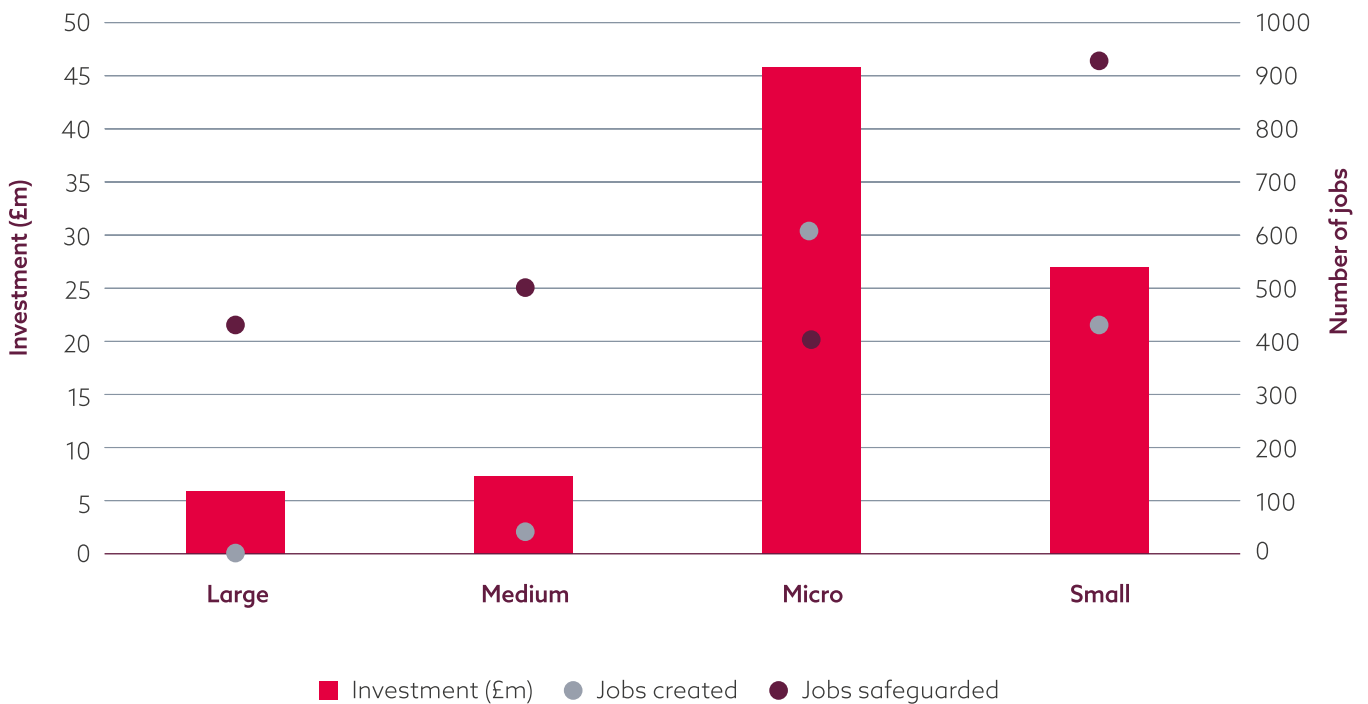
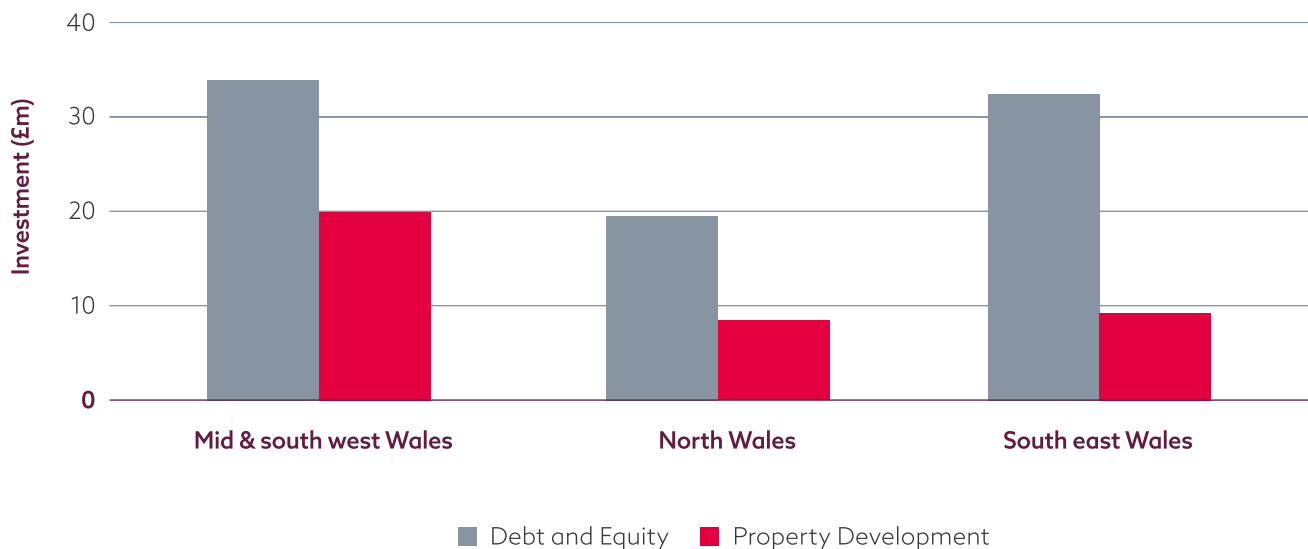


Figure 5.5 shows that firms located in mid and south west Wales had the highest share of investment funding during the 2023/24 financial year. In total, firms located in mid and south west Wales received 44% of investment funding during the year. This compares with 34% to firms located in south east Wales, and 23% firms located in north Wales. South east Wales is the region with the greatest concentration of firms in Wales, and firms in this region had

received the highest investment share (around 42%) during the previous financial year.

In the 2023/24 financial year, equity investments made to firms in south east Wales was almost £8m, or around 67% of total equity investment funding. Firms in north Wales received just over 25% of equity funding with almost 8% of equity funding made to firms located in mid and south west Wales.

Figure 5.5
Investment, £m, by location during 2023/24



Of the total £125.2m of investments made by the Development Bank during 2023/24, almost £9m (around 7%) was to new/start-up businesses. In total, these new start-ups created or safeguarded 335 jobs. Figure 5.6 shows that 60% of the value of start-up investments

(almost £5.3m) in 2023/24 were to businesses located in south east Wales. Businesses located in mid and south west Wales accounted for 26% of start-up investment funds, with firms in north Wales securing 14% of the value of start-up investments in 2023/24.

Figure 5.6

Start-up Investment funding by location during 2023/24, %.

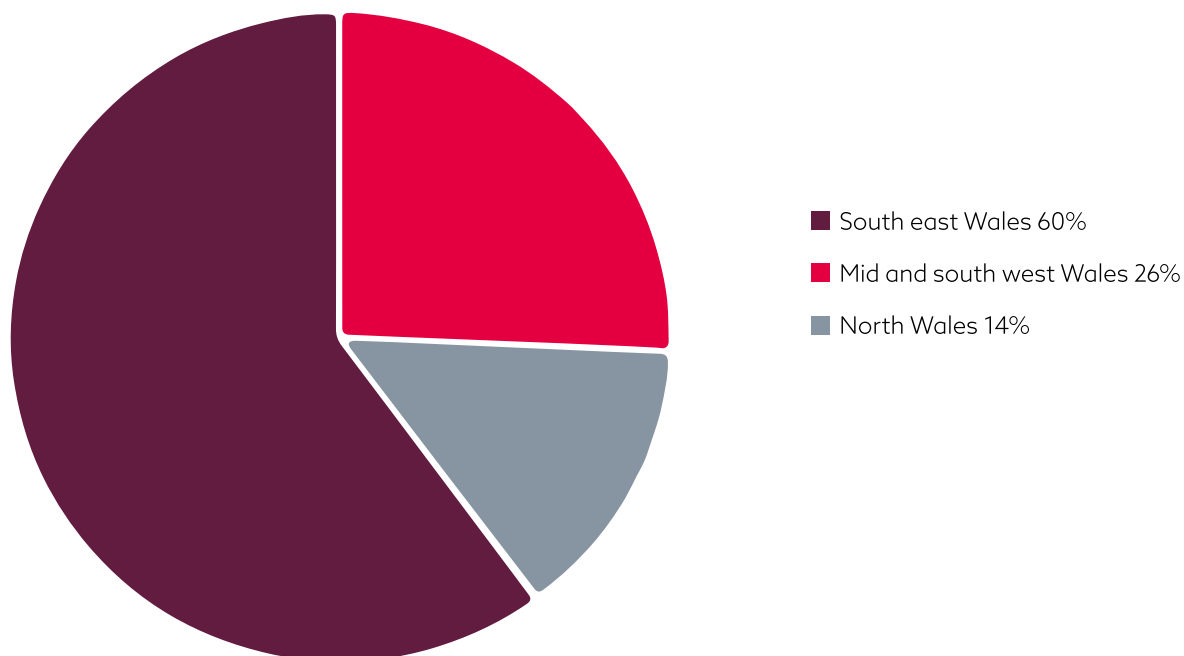
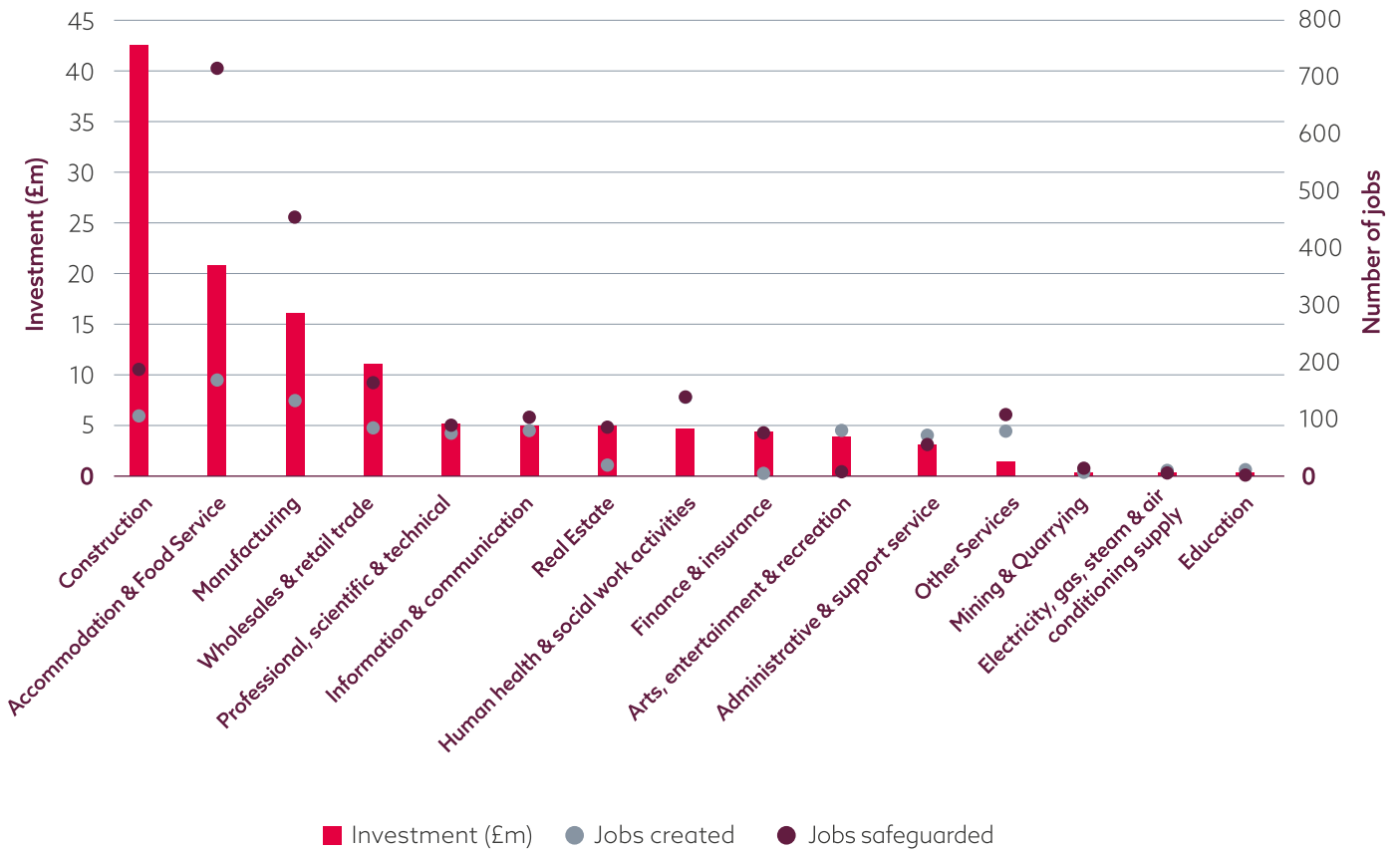


Figure 5.7 shows that firms in the construction sector received the highest share (just over 34%) of investment funds during the 2023/24 financial year. Whilst the top four sectors shown in Figure 5.7 (construction, accommodation

and food service activities, manufacturing, and wholesale and retail trade) accounted for three quarters of total investment funding during the 2023/24 financial year, and 60% of total jobs created and safeguarded.

Figure 5.7
Investment value, £m, and jobs by sector during 2023/24. Selected sectors with investment value above £0.5m



The cumulative value of investments for the five-year period to the end of 2023/24 was £567m excluding the £92m Covid-19 Wales Business Loan Scheme (CWBLS)

The cumulative number of the Development Bank of Wales investments during the last five years reached 2,387 by the end of the 2023/24 financial year, when excluding

the 1,300 CWBLS investments. These investments have created 5,625 jobs and safeguarded over 9,465 jobs in addition to the 16,000 jobs safeguarded by CWBLS.

A fall in the value of co-investment during the 2023/24 financial year

Figures 5.8 and 5.9 provide some historical context to the Development Bank’s investment activities. Figure 5.8 tracks the nominal value of investments made by the Development Bank, and the associated co-investment (private sector leverage) during the last five years, separating out the £92m from CWBLS that was administered during that period.

The value of investments shows an increasing trend from the pre-pandemic period, although with just a marginal increase in the value of investments during the most recent financial

year. The total value of co-investment declined during 2020/21, but recovered slightly during the 2021/22 financial year, with a more significant upturn in debt and equity co-investment in 2022/23, with total co-investment reaching almost £115m. The value of debt and equity co-investment was however much lower in the 2023/24 financial year, bringing the total co-investment value to £50m, potentially a consequence of the particularly challenging business and lending environment during this period. Over the five-year period shown in Figure 5.8, co-investments have totalled almost £366m.

Figure 5.8
Investment and co-investment, £m, 2019/20 – 2023/24

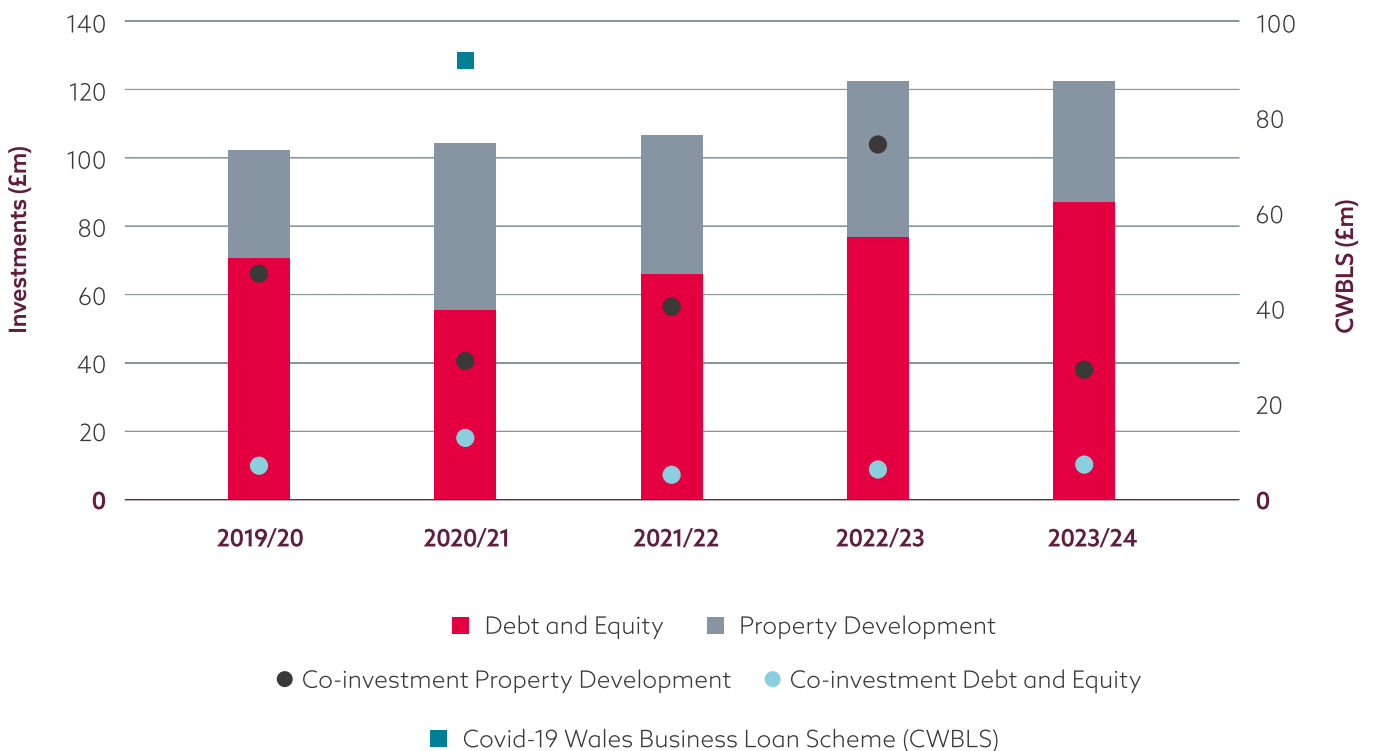
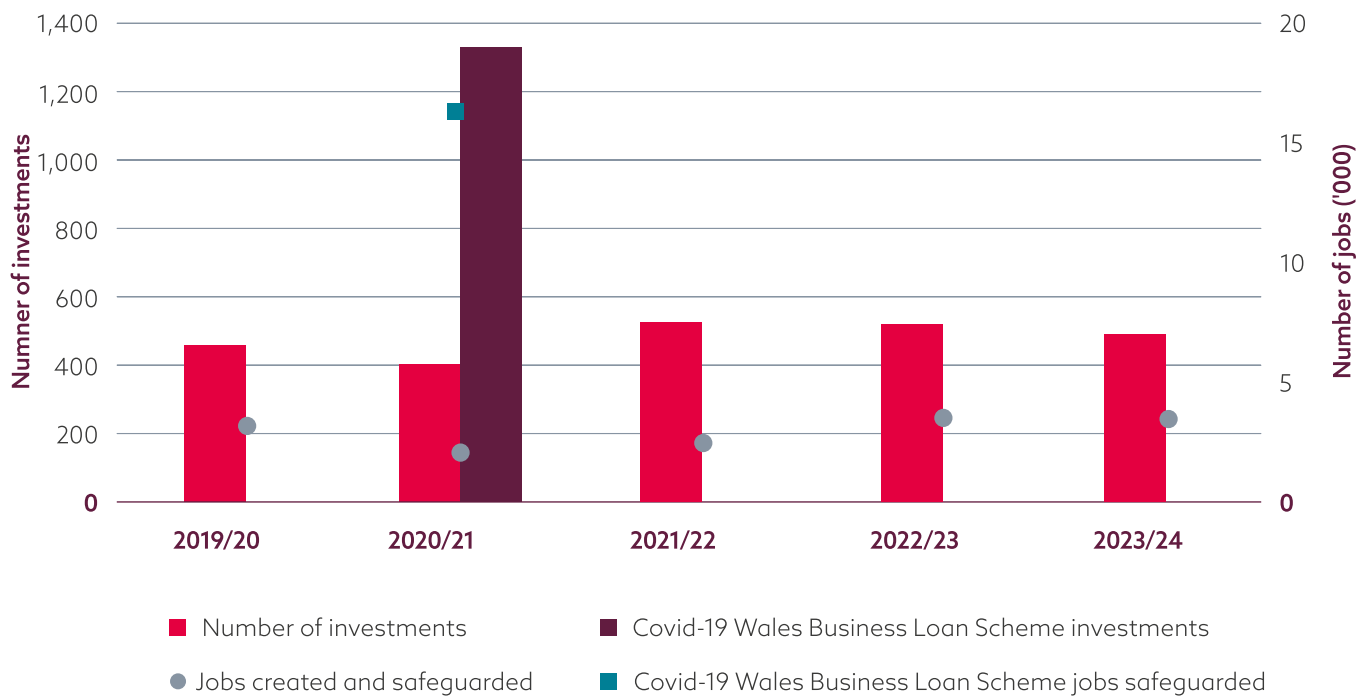


Figure 5.9 further illustrates the scale of the lending during 2020/21 financial year, as over 400 business as usual investments were made, creating and safeguarded over 2,300 jobs, in addition to the 1,300 investments made via CWBLS which safeguarded 16,055 jobs in 2020/21. Figure 5.9 also illustrates the jobs created and safeguarded over the period, excluding the 16,055 associated with CWBLS.

the year before the pandemic. Although the number of investments has been relatively stable during the past three financial years, there has been a slight decline in the number of investment transactions since the 2021/22 financial year. Similarly, the total number of jobs created and safeguarded has been relatively stable (except in the 2020/21 financial year), but with a slight decline in the most recent financial year compared with 2022/23.

The number of investments made each year since the 2020/21 period exceed those in

Figure 5.9
Number of investments and jobs created and safeguarded, 2019/20 – 2023/24



Overall, this 2023/24 annual report reveals a series of encouraging signs in terms of the general economic environment surrounding SMEs in the Welsh economy. Critical is the downward movement in UK inflation which had been a major issue for Welsh firms of all sizes. While the UK Bank of England Rate at the time of writing in June 2024 has been maintained, there is a strong expectation that it will be reduced in the coming months as inflationary pressure is removed from the UK economy. There is a need for some care here because history shows that inflation can kick up after a downward trend, and this is clearly a concern for the Bank of England. The UK economy has seen some limited growth in the first quarter of 2024.

The Welsh economy remains in large measure 'captive' to wider UK trends. However, there is some specific concern on falling Welsh export activity in the year to March 2024 and with some expectation that changes at Tata in Port Talbot could have large impacts on the Welsh index of production and on exports, let alone the impacts of large-scale redundancies resulting from the changing technology at the plant.

Notwithstanding, this report reveals encouraging increases in business confidence in the UK, and with the Business Insights

and Conditions Survey (BICS) for April 2024 showing that close to 43% of surveyed Welsh businesses expected their performance would improve in the next 12 months.

The UK General Election is scheduled for early July 2024⁷⁹. The new UK Government, whatever its political complexion, is unlikely to have significant scope for public spending growth. Indeed, independent analyses of spending plans and their financing has cast doubts on how far ambitious plans are properly costed. The words 'fully costed' have become something of a contested and misused term. Therefore, the expectation is for a continuity of tight fiscal conditions but with the possible light at the end of the tunnel being better UK growth prospects.

The annual report again evidences the significance of Development Bank of Wales activity with investments in this 2023/24 financial year connected to around 3,400 new and safeguarded jobs, and with micro-sized businesses continuing to gain a significant share of new funding. Particularly encouraging has been the wide range of projects in which the Bank is engaged, embracing different industries and different infrastructures.

⁷⁹ The drafting of this report was completed on 4 July 2024.

Appendix 1:

Selected frequently updated resources

Some figures reported in the quarterly and annual 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 forecasts for the UK economy 2024 and 2025

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	May 2024	0.4	1.0
NIESR	May 2024	0.8	1.0
Other non-city forecasters			
CBI	April 2024	0.8	1.6
Experian Economics	May 2024	0.9	1.3
Oxford Economics	May 2024	0.6	2.0
City forecasters			
Capital Economics	May 2024	0.8	1.5
JP Morgan	May 2024	0.9	0.8
KPMG	May 2024	0.5	0.9

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

Appendix 2:

Selected forecasts for the UK economy 2024 and 2025

Selected LFS Unemployment rate forecasts for the UK economy 2024 and 2025 Q4

Forecasters	Date of forecast	LFS Unemployment rate 2024 Q4	LFS Unemployment rate 2025 Q4
CEBR	May 2024	4.2	3.8
OECD	May 2024	4.7	4.7
NIESR	May 2024	4.3	4.9
Other non-city forecasters			
CBI	April 2024	4.8	4.8
Experian Economics	May 2024	4.5	4.4
Oxford Economics	May 2024	4.2	3.9
City forecasters			
Capital Economics	May 2024	4.2	4.1
JP Morgan	May 2024	4.0	4.1
KPMG	May 2024	4.4	4.7

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

Appendix 2:

Selected forecasts for the UK economy 2024 and 2025

*Selected Growth in prices forecasts for the UK economy 2024 and 2025 (% growth Q4-on-Q4):
Consumer Price Index (CPI) inflation*

Forecasters	Date of forecast	2024 CPI (Q4 on Q4 year ago, %)	2025 CPI (Q4 on Q4 year ago, %)
CEBR	May 2024	2.2	2.3
OECD	May 2024	2.8	2.1
NIESR	May 2024	2.2	2.3
<i>Other non-city forecasters</i>			
CBI	April 2024	2.5	2.0
Experian Economics	May 2024	2.3	2.2
Oxford Economics	May 2024	2.1	2.3
<i>City forecasters</i>			
Capital Economics	May 2024	0.8	1.1
JP Morgan	May 2024	2.4	2.5
KPMG	May 2024	2.0	2.2

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

Appendix 2:

Selected forecasts for the UK economy 2024 and 2025

*Selected Growth in prices forecasts for the UK economy 2024 and 2025 (% growth Q4-on-Q4):
Retail Price Index (RPI) inflation*

Forecasters	Date of forecast	2024 RPI (Q4 on Q4 year ago, %)	2025 RPI (Q4 on Q4 year ago, %)
CEBR	May 2024	3.0	3.0
Liverpool Macro Research	May 2024	3.0	2.8
NIESR	May 2024	5.0	3.5
Other non-city forecasters			
CBI	April 2024	3.2	2.3
Experian Economics	May 2024	3.0	2.9
Oxford Economics	May 2024	3.4	3.4
City forecasters			
Capital Economics	May 2024	1.1	0.2
HSBC	May 2024	3.3	2.8
UBS	May 2024	3.4	2.4

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

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