

Economic Intelligence Wales

Quarterly report

February 2025

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Summary

This is the second Economic Intelligence Wales quarterly report of the 2024/25 financial year. This report provides a review of economic data relevant to SME development in Wales, and a summary of the investment activities of the Development Bank of Wales during the second quarter of the 2024/25 financial year. The report includes commentary on the global and local economic context and conditions affecting the supply and demand for finance in Wales.

The drafting of this report was completed on 9th January 2025.

Economic conditions

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

In October 2024 the UK Government's budget was published. A key feature was plans for **£40 billion of additional taxes to be raised.**

The Welsh Government's draft budget, published in December 2024, allocated an **additional £1.5 billion spending during 2025-26.**

Data from the ONS showed that twelve-month Consumer Price Index (CPI) **inflation in the UK was 2.6% in November 2024, up from 2.3% in October 2024.**

In December 2024 **the Bank of England voted to keep the Bank Rate at 4.75%.** This followed a cut in November of 0.25 percentage points.

Revised UK gross domestic product (GDP) estimates showed the economy had no growth in 2024Q3. Estimates of UK GDP growth for 2024Q2 were also revised down to 0.4%.

Between September and November 2024, total UK vacancies were down by 136,000 from the level of the year before. Estimates from PAYE show a rise in the number of payroll employees in the UK for November 2024 to 30.4m, an increase

of 76,000 employees compared to November 2023. **In Wales the number of payrolled employees grew by 4,800 to 1.32m in the year to November 2024.**

The **value of goods exported from Wales decreased by 9.5% to £18.0bn in the year ending September 2024.**

The average forecast for UK GDP growth in 2024 was 0.8% in December 2024, down 0.1 percentage points from the average new forecast made in November 2024.

Changing economic conditions shaping demand for finance

The Federation of Small Businesses UK Small Business Index of **business confidence fell further in 2024Q3, from -10.8 in 2024Q2, to -24.4.** This was the lowest level since 2022. The domestic economy continued to be the top concern for small businesses as a potential barrier to growth.

The SME Finance Monitor data for Wales showed that 30% of SMEs (excluding starts) experienced growth during the first half of 2024. Meanwhile, at a UK level, **29% of all responding SMEs (excluding starts) experienced growth over the three months to end of October.**

The **number of business births in Wales exceeded business deaths for the first time in over three years during 2024Q3.** Total business births in Wales in 2024Q3 were 2,545, whilst the number of business deaths in Wales during the same period were 2,270.

The ONS Business Impacts and Conditions Survey (BICS) for 1st to 30th November 2024 reported that **35.9% of Welsh businesses expected their performance would improve in the year ahead (UK 33%).**

ONS data showed that **UK house prices increased by 3.4% in the 12 months to October 2024.** The average house price in Wales in October 2024 was £222,316, representing a 4% increase from October 2023.

Summary

The S&P Global/CIPS UK **Construction Purchasing Managers' Index** registered **54.3** in **overall construction activity in November 2024**, well above the 50 mark that differentiates expansion from contraction.

Supply and demand for finance

Lenders reported that **the availability of credit for small business was unchanged and slightly increased for medium-sized** and large businesses in 2024Q3. Meanwhile, lenders also reported that demand from businesses of all sizes was unchanged during the same period.

The SME Finance Monitor found that 43% of UK SMEs had used some form of external finance during 2024Q2, down from 48% in 2024Q1. **In Wales, 59% of SMEs had used some form of external finance during 2024Q2, up from 47% during the previous quarter.**

UK Finance SME lending within UK postcodes data for 2024 H1 indicates **the stock of lending to Welsh SMEs appears to be returning to pre-pandemic levels.**

Equity funding for UK small businesses increased in 2024Q1 and 2024Q2, according to the British Business Bank's *Nations and Regions Tracker*, despite a wider continued decline in deal volumes and values in most areas of the UK during the first half of 2024. Nevertheless, the value of equity investment in smaller businesses rose by 7% in 2024Q1 compared with 2023Q1, and this growth continued into 2024Q2.

Development Bank of Wales activity

The Development Bank of Wales made **119 investments in the second quarter of 2024/25, with a total value of almost £34m.** These investments were linked with **over 1,630 new and safeguarded jobs, with businesses in north Wales responsible for 45% of these jobs.**

The construction sector dominated investments made in 2024/25Q2, accounting for 35% of funds, whilst the manufacturing sector dominated in terms of new and safeguarded jobs, supporting almost 900 jobs in the period.

This report provides a review of economic data relevant to SME development in Wales, and a summary of the investment activities of the Development Bank of Wales during the second quarter of the 2024/25 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.

The drafting of this report was completed on 9th January 2025.

The Economic Intelligence Wales Annual Report for 2023/24,¹ notes the recently published reports on R&D-intensive businesses in Wales,² Covid-19 Welsh Government financial interventions: final analysis of administrative and survey data,³ as well as the Wales SME Access to Finance report: Sub-National and Devolved Nation analysis, the latter in collaboration with the British Business Bank.⁴

Economic Intelligence Wales and the British Business Bank have jointly commissioned a second large-scale SME survey on regional access to finance in Wales. The report will be launched at an event in April 2025.

During 2025, Economic Intelligence Wales is planning to publish a series of other outputs including reports on:

- The governance and financing of community-led ventures in Wales.
- The role of 'productivity heroes' in the Welsh economy: their contribution to growth and productivity.
- Productive investment in Wales: what shapes investment decisions?
- Online banking, relationship banking and lending to Welsh SMEs.

¹ https://developmentbank.wales/sites/default/files/2024-09/EIW%20Annual%20Report%202024%20ENG_ACCESSIBLE_V1%202.pdf

² [R&D intensive businesses in Wales: Innovation and contribution to turnover and employment \(developmentbank.wales\)](#)

³ [Covid-19 Welsh Government financial interventions - Dev Bank \(developmentbank.wales\)](#)

⁴ [Wales SME Access to Finance Report \(developmentbank.wales\)](#)

- The International Monetary Fund's global growth forecast for 2024 remained at 3.2%, while the forecast for 2025 was downgraded, by 0.1 percentage points, to 3.2%.
- The Bank of England voted to keep the Bank Rate at 4.75% in December 2024, following a cut of 0.25 percentage points in November 2024.
- Twelve-month Consumer Price Index (CPI) inflation in the UK was 2.6% in November 2024, up from 2.3% in October 2024.
- Revised UK gross domestic product (GDP) estimates showed the economy had no growth in 2024Q3, following a revised 0.4% growth in 2024Q2.

Global prospects

The International Monetary Fund's (IMF) *World Economic Outlook*⁵ published in October 2024, indicated that global growth was expected to continue being "stable yet underwhelming", at 3.2% in both 2024 and 2025. The new projection for 2025 was 0.1 percentage points lower than that noted in the July 2024 *World Economic Outlook Update*.⁶ These projections were closely aligned with the forecasts in the OECD's *Economic Outlook*⁷ published in December 2024, with growth at 3.2% in 2024 and 3.3% in 2025.

However, the IMF observed that more pronounced changes were seen at a country level as "various cyclical forces unwind and economic activity gets back in line with potential".⁸ The IMF forecast GDP growth in the United States to be 2.8% in 2024, an upwards revision of 0.2 percentage points, but expect it to fall to 2.2% in 2025 following tightening fiscal

policy and reduced consumption as the labour market cools. The comparative figures for the Euro area are for growth of 0.8% in 2024 and 1.2% in 2025, with both of these projections being revised down from July 2024 as weakness in manufacturing in countries such as Germany and Italy continue to slow growth. In the UK, the IMF growth projection is for 1.1% in 2024, before increasing to 1.5% in 2025.

The IMF forecast for global inflation is for a steady decrease from 6.7% in 2023, to 5.8% in 2024, and 4.3% in 2025. The report notes that, whereas global headline inflation fell in 2023 due principally to lower fuel prices, the decreases projected for global inflation in 2024 and 2025 signals a broad-based decrease in core inflation (excluding more volatile items such as food and energy).

⁵<https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024>

⁶<https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024>

⁷https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2024-issue-2_d8814e8b-en.html

⁸<https://www.imf.org/en/Publications/WEO/Issues/2024/10/22/world-economic-outlook-october-2024>

UK Government Budget

The much-awaited new Labour Government's budget was published in October 2024. Chancellor Rachel Reeves' first budget was very much a tax raising budget, with £40 billion of additional tax being planned, which the Government insisted was essential to fill a 'black hole' in public finances left by the previous government and to 'fix' public services.⁹ The additional tax is to be raised from a variety of sources,¹⁰ but the most significant increase – from which the Chancellor hopes to raise £25 billion – is a rise in the rate of national insurance that employers pay on staff salaries, from 13.8% to 15%, and with this applying to a larger share of earnings due to a reduction in the threshold above which the tax is paid.

This increase is likely to place significant additional pressures on businesses when it is introduced from April 2025. However, the important test will be how employers seek to absorb the additional tax burden. There are fears that many employers may respond by cutting jobs, or at least putting on hold plans to increase employment, particularly given that from April 2025 the minimum pay rate for 18-20-years-olds will also be increasing.¹¹ The Federation of Small Businesses has however welcomed the announced rise in the employment allowance for small businesses from £5,000 to £10,500, helping to protect some of the smallest businesses from some tax increases.¹²

Draft Welsh Government Budget

One consequence of the rise in public expenditure announced in the October 2024 UK budget was that the Welsh Government had more funding than previously anticipated. In total, the draft Welsh budget allocated an additional £1.5 billion in resource and capital spending during 2025-26.¹³ This additional funding has enabled the Welsh Government to increase allocations across policy portfolios, including some of those aimed at supporting

Welsh businesses. Welsh small businesses, in particular, welcomed the draft budget decision to extend rates relief for retail, leisure, and hospitality businesses, and to cap the multiplier used to calculate rates for all businesses.¹⁴ Some analysis suggests that the increase in announced Welsh Government funding may not be enough to prevent a real terms cut in some spending areas, and with an expectation of more difficult budgets ahead.¹⁵

⁹ <https://www.ft.com/content/baed2255-1887-49e1-8afa-293dbef1c698>

¹⁰ <https://commonslibrary.parliament.uk/research-briefings/cbp-10124/>

¹¹ <https://www.ft.com/content/81eda402-2157-41db-ae70-7934f3aa0b94>

¹² <https://www.fsb.org.uk/resources-page/employment-allowance-rise-welcome-from-chancellor-in-tax-raising-budget.html>

¹³ <https://www.gov.wales/draft-budget-2025-2026>

¹⁴ <https://www.fsb.org.uk/resources-page/vital-lifeline-for-small-businesses-protected.html#:~:text=Responding%20to%20the%20Welsh%20Government's,all%20businesses%20has%20been%20capped>

¹⁵ <https://blogs.cardiff.ac.uk/thinking-wales/making-sense-of-the-welsh-governments-draft-budget-for-2025-26/>

UK inflationary pressures

In the year to November 2024 the annual rate of producer output (factory gate) prices decreased by 0.6% according to the ONS.¹⁶ This compares to a revised 0.9% decrease in the year to October 2024. The largest downward contribution to the annual output inflation rate in November 2024 came from outputs of chemicals (-1.16 percentage points), paper and printed material (-0.96 percentage points), and outputs of coke and refined petroleum products (-0.44 percentage points). The largest upward contribution to the annual output inflation rate was via other outputs (1.03 percentage points), particularly in this product group through a price rise in soft drinks; mineral waters and other bottled waters for the domestic market.

ONS data also showed that twelve-month Consumer Price Index (CPI) inflation in the UK was 2.6% in November 2024, up from 2.3% in October, but considerably down from the high of 11.1% in October 2022.¹⁷ The largest upward contribution to the monthly change in the CPI annual inflation rate in the year to November 2024 came from transport, and recreation and culture, while these were partially offset by a downward contribution from restaurants and hotels.

The Bank of England holds the Bank Rate steady in December 2024

In December 2024, the Bank of England held the Bank Rate at 4.75%, with the Governor of the Bank of England reportedly noting that "...with the heightened uncertainty in the economy we can't commit to when or by how much we will cut rates in the coming year..."¹⁸ The Monetary

Policy Summary for December noted that the measured approach to removing monetary policy restraint would need to continue "...until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further..."¹⁹

¹⁶ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/producerpriceinflation/november2024>

¹⁷ <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2024>

¹⁸ <https://www.bbc.co.uk/news/articles/cd75yq1z1zqo>

¹⁹ <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/december-2024>

Revised quarterly GDP estimates shows the UK economy had no growth in 2024Q3

The first quarterly estimate of UK real gross domestic product (GDP) from the ONS had shown that the economy grew by 0.1% in 2024Q3,²⁰ however in December 2024 these estimates were revised down to zero growth.²¹ This followed a revised estimate of 0.4% GDP growth in 2024Q2. In comparison to the same quarter a year ago, UK real GDP is estimated to have grown by 0.9% in 2024Q3.

By sector, output in UK services had zero growth in 2024Q3 (revised down from the previous estimate of a 0.1% increase) in 2024Q3, following a 0.6% increase in 2024Q2. The largest positive contributor to the growth in services output in 2024Q3 was the wholesale and retail trade; repair of motor vehicles and motorcycles (an increase of 0.5%). The financial and insurance

sector made a negative contribution to quarterly service sector GDP, falling by 0.6% in 2024Q3. Output in the UK production sector fell by an estimated 0.4% in 2024Q3 (revised from a first estimate of a 0.2% decline). GDP in the production sector in 2024Q3 was estimated to be 2.3% lower than the same quarter in 2023. Output in construction grew by an estimated 0.7% in 2024Q3 following three consecutive quarters of decline. However, output in this sector was 0.2% lower than in 2023Q3.

Monthly UK GDP estimates show the economy declined by 0.1% in October 2024, with the ONS noting this was mainly due to a fall in production output. There had also been an estimated 0.1% fall in monthly GDP in September 2024.²²

UK business investment increased in 2024Q3

UK business investment increased by 1.9% in 2024Q3, revised up from a 1.2% increase in the provisional estimate, according to results

published by the ONS. The revised figure was 5.8% above the level in 2023Q3.²³

²⁰ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/julytoseptember2024>

²¹ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/latest>

²² <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/october2024>

²³ <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/businessinvestment/julytoseptember2024revisedresults>

The fall in UK job vacancies continues

In the period September to November 2024 the number of UK job vacancies was 818,000 – decreasing 31,000 from the previous quarter.²⁴ In September to November 2024 total vacancies were down by 136,000 from the level of the previous year, although they remained 22,000 (2.8%) above their pre-coronavirus (COVID-19) pandemic January to March 2020 levels. The largest proportional decreases in vacancies in September to November 2024 from the previous quarter were in manufacturing (down 11.3%), and wholesale and retail trade; repair of motor vehicles and motorcycles (decreasing 10.3%).

Pay as You Earn Real Time Information²⁵ early estimates show a rise in the number of payroll employees in the UK for November 2024 to 30.4m, an increase of 76,000 employees (or 0.3%) compared with the figure for November 2023.

In the year to November 2024, the increase in payrolled employees in the UK was largest in the health and social work sector (an increase of 150,000 employees or 3.5%) and smallest in the accommodation and food service activities sector

(a decrease of 77,000 or -3.5%).²⁶ A fall in payrolled employees between November 2023 and November 2024 was also seen in a number of other sectors, including manufacturing, construction, wholesale and retail, information and communication, professional, scientific and technical, and administrative and support services. The percentage increases in payroll employees over the year were highest in energy production and supply (4.8% or 5,000 employees), and health and social work (as shown above, 3.5% or 150,000 employees).

The number of payrolled employees in Wales increased by 4,800 (or 0.4%) to 1.32m in the year to November 2024.²⁷ The UK regional data on payroll employees by sector is updated less frequently, but the data for October 2024 shows the percentage increase in payroll employees over the year was highest in energy production and supply (6.6% or 360 employees).²⁸ Over the year to October 2024, there was an increase of 4,600 (or 2.1%) payrolled employees in the health and social work sector and 1,500 (or 1.9%) payrolled employees in the public administration sector.

Labour market data for Wales quality issues

As noted in previous quarterly reports, the ONS has indicated that smaller achieved sample sizes, due to challenges in maintaining response rates, have created increased volatility in the Labour Force Survey (LFS), with data for Wales

currently having large confidence intervals.²⁹ Consequently, the ONS advise that these data be used with caution, and users take account of information from a number of different sources.

²⁴ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/december2024>

²⁵ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnrealtimeinformationuk/december2024>

²⁶ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

²⁷ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted>

²⁸ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimeinformationstatisticsreferencetableseasonallyadjusted/current>

²⁹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/december2024>

Unemployment rate increases in the UK and in Wales

For the three-month period to October 2024 the UK unemployment rate (all aged 16+, seasonally adjusted) was an estimated 4.3%, according to figures from the ONS. This represented an increase of 0.3 percentage points from the figure for the quarter August to October 2023.³⁰

The highest UK regional unemployment rates in the three-months ending October 2024 were in London (6.0%), Wales (5.5%),

North East (5.4%), East Midlands (4.5%) and West Midlands (4.3%), while the lowest rates were in Northern Ireland (1.6%), East (3.3%), Yorkshire and The Humber (3.5%), Scotland (3.6%), and the South East (3.8%).³¹ In Wales the unemployment rate for the three-month period to October 2024 increased 1.4 percentage points from the quarter May to July 2024.

The unemployment benefit claimant count continues to rise in the UK and Wales

The UK unemployment-related benefit claimant count (not seasonally adjusted) increased by 221,500 to 1.76m people during the year to November 2024.³²

In Wales, 67,100 people claimed unemployment-related benefits in November 2024 (equal to 3.5% of the working population not seasonally adjusted, compared with a figure of 4.2% for the UK), an increase of 5,300 in the number of claimants compared with November 2023.³³

The Welsh unitary authorities with the highest proportion of working age population claiming unemployment-related benefits, according to the data for November 2024, were Newport (4.8%), Cardiff (4.3%), Blaenau Gwent (4.1%), Torfaen (4.0%), Denbighshire (3.9%), and Conwy (also 3.9%), and those with the lowest proportions were Monmouthshire (2.6%), Powys (2.7%), Flintshire (2.9%), Gwynedd (3.0%), Bridgend (also 3.0%), and Ceredigion (3.1%).

Economic inactivity decreases in the UK and Wales

The UK inactivity rate (seasonally adjusted, all aged 16 to 64 years) in the period August to October 2024 was 21.7% according to ONS LFS data. This was 0.2 percentage points below the rate a year ago (August to October 2023),³⁴ with the ONS noting that this decrease was led by those aged between 35 and 64 years.

The economic inactivity rate in Wales, in the period August to October 2024, decreased 0.2 percentage points on the year to 25.2%.³⁵ As noted above, a degree of caution should be exercised in interpreting LFS data due to on-going quality issues.

³⁰ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#unemployment>

³¹ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/regionallabourmarket/latest>

³² <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/outofworkbenefits/datasets/claimantcountcla01>

³³ <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Unemployment/Claimant-Count/claimantcount-by-welshlocalareas-variable-month>

³⁴ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/latest#economic-inactivity>

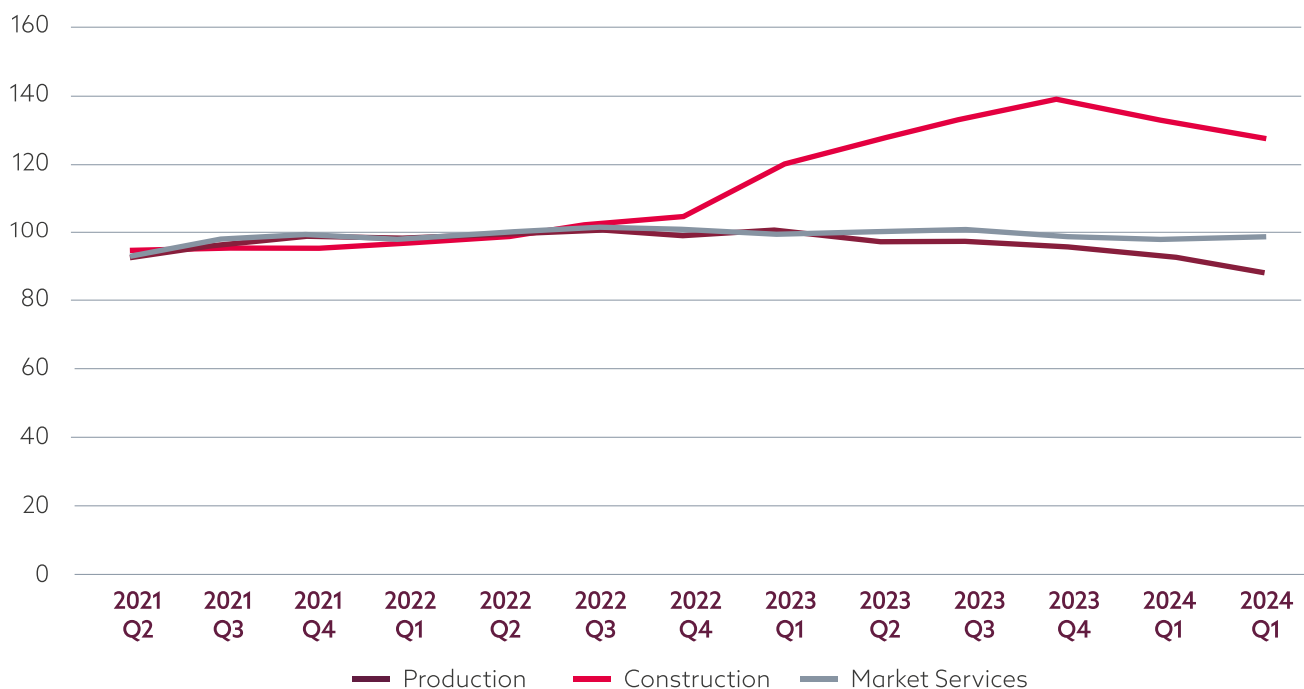
³⁵ <https://www.gov.wales/labour-market-overview-december-2024-headline-results.html>

A decline in Welsh construction industry output from 2023Q3 to 2024Q2

Figure 2.1 shows the trend in Welsh production, construction and market services indices from 2021Q2 to 2024Q2. During this period the market services index remained relatively stable being 1.0% below the 2022 level for Wales in 2024Q2. The Welsh production index marginally increased in 2024Q2 but was still 9.6% below the Wales 2022 level. The slowdown in activities at Tata steel in south Wales is expected to impact the Index of Production in the latter part of 2024 and into 2025. Despite three consecutive quarters of decline the Welsh construction index remained 9.7% above the Wales 2022 level in 2024Q2, with the comparative figure for the UK as a whole reaching just 1.7% above 2022 levels.

The Bank of England's Agents' summary of business conditions published in September 2024 noted that limits to construction growth, in the UK as a whole, included "the high interest rate environment, elevated building costs, labour shortages, and planning delays".³⁶ During 2025 work in Wales on the A465 Heads of the Valleys road upgrade will complete. This project has been ongoing for 23 years and has been undertaken in various sections.³⁷ The final sections (5 and 6) extend between Hirwaun and Dowlais Top.³⁸ This significant construction project has involved many thousands of construction workers. The ending of such a significant scale of construction project, and the lack of future large scale infrastructure projects in Wales is likely to have a dampening effect on the Welsh index of construction output in 2025.

Figure 2.1.
Welsh output indices: trend 2021Q2 – 2024Q2 (2022=100)



Source: Stats Wales, Welsh Indices of Production and Construction (2022=100) by section and year and Index of Market Services (2022=100) by year and area.

³⁶ <https://www.bankofengland.co.uk/agents-summary/2024/2024-q3>

³⁷ <https://www.bbc.co.uk/news/articles/c2dxn7rj27go>

³⁸ <https://www.gov.wales/a465-section-5-and-6-dowlais-top-hirwaun>

The value of goods exported from Wales decreased in the year to 2024Q3

The ONS note that a degree of caution should 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 2024Q3 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 September 2024 compared with the previous twelve months.³⁹ The value of goods exported from Wales decreased by 9.5% to £18.0bn in the twelve months ending September 2024 (compared with a decrease of 4.5% in England, 10.9% in Scotland, and an increase of 5.5% in Northern Ireland).

Total export values in Wales decreased in most product categories over the year to September 2024.⁴⁰ The value of Mineral Fuels exports fell to £2.2bn in the year ending 2024Q3, from £3.8bn in the previous twelve months, a decrease of 43.2%. The export value of Chemicals fell to £2.4bn in the year ending 2024Q3, from £2.5bn in the previous twelve months, a decrease of 6.6%. The export value of Welsh Machinery and Transport products increased to £8.4bn in the year ending 2024Q3, from £8.2bn in the previous twelve months, an increase of 2.2%.

The total exporter count for Wales in 2024Q3 was 3,083, a decrease of 51 (or 1.6%) from 2023Q3 (using the Whole Number Method⁴¹). In the same time period, there was a decrease of 3.9% for the UK as a whole.⁴² HM Revenue & Customs published trade volume data for the year to 2024Q3 showed that a net mass of 6.0 billion kilograms was exported from Wales, a decrease of 28% from the previous twelve months.⁴³

In the year to September 2024 the value of goods imported fell in Wales by 5.2% to £20.9bn when compared to the previous twelve months. This compared to decreases in the value of imports in England of 5.6%, in Scotland of 14.9%, and Northern Ireland of 1.1%.⁴⁴

In Wales, the total importer count in 2024Q3 was 8,884 an increase of 0.2% from the figure in 2023Q3. In the UK the total importer count increased by 1.9% over the same period.⁴⁵ Trade volume data published by HM Revenue & Customs, for the year to 2024Q3, showed that a net mass of 17.2 billion kilograms was imported into Wales, a decrease of 2.7% from the previous year to the end of 2023Q3.⁴⁶

³⁹ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-third-quarter-2024>

⁴⁰ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-third-quarter-2024/#datasets>

⁴¹ "Whole number method": A business counts as 1 in each region they have employees.

⁴² <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-third-quarter-2024/#datasets>

⁴³ <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

⁴⁴ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-third-quarter-2024>

⁴⁵ <https://www.uktradeinfo.com/trade-data/regional/2024/uk-regional-trade-in-goods-statistics-third-quarter-2024/#datasets>

⁴⁶ <https://www.uktradeinfo.com/trade-data/rts-custom-table/>

UK economy forecasts

A comparison of independent forecasts received between the 1st and 13th December 2024 was published in the December 2024 *HM Treasury Forecasts for the UK Economy*.⁴⁷ The average of new forecasts for UK GDP growth in 2024 was 0.8%, down 0.1 percentage points from that projected by the average of new forecasts

in the November 2024 publication.⁴⁸ 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.

⁴⁷ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-december-2024>

⁴⁸ <https://www.gov.uk/government/statistics/forecasts-for-the-uk-economy-november-2024>

- Small business confidence falls further in 2024Q3.
- The domestic economy remains the main concern as a barrier to small business growth.
- Business births in Wales exceed business deaths for the first time in over three years.

Business population

The most recently published data⁴⁹ shows that there were an estimated 246,375 active SMEs in Wales in 2023 (a fall of 7,000 on the previous year), and the overwhelming majority of these (234,615) were micro enterprises employing fewer than ten people. When broken down further, the data indicates that 184,695 of

these micro businesses had 0-1 employee, whilst 37,675 had 1-4 employees, and 12,250 had 5-9 employees. The three largest SME industry groupings, based on the number of enterprises, were: wholesale, retail, transport, hotel, food, and communication; financial and business services; and construction.

Small business confidence falls further in 2024Q3

Although briefly returning to a positive quarterly reading in 2024Q1, the Federation of Small Businesses (FSB) UK Small Business Index (SBI)⁵⁰ fell back into negative territory in 2024Q2 to -10.8.⁵¹ More recently, 2024Q3 saw a further significant decline in business confidence to -24.4, the lowest level since 2022. Although the survey for Q3 was undertaken prior to the UK Government's budget published on 30th October and therefore does not directly reflect business sentiment related to the budget measures, the substantial degree of negativity in advance of the budget may well have impacted on the significant reduction in business confidence identified. Figure 3.1 shows the trend of the FSB SBI between 2022Q3 and 2024Q3.

In 2024Q3, the net balance of small businesses reporting revenue growth stood at -13.8% (the worst performing sector, manufacturing, stood at -35%). For the ninth consecutive quarter the overall negative balance reflects the number of small businesses reporting a decrease in revenue being greater than those reporting an increase. Looking ahead to 2024Q4, small businesses reported that they did not expect to see revenue growth over the subsequent months, with the SBI reporting a net balance figure of -4.0%.

Although all sectors surveyed by the SBI remained negative in 2024Q3, there were large sectoral variations in the degree of pessimism. The accommodation and food services

⁴⁹ <https://stats.wales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Businesses/Business-Structure/Headline-Data/enterprises-by-sizeband-area-year>

⁵⁰ 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'. The FSB explains the sample size in Wales is too small to publish data limited to Wales (also the case in Northern Ireland).

⁵¹ FSB Small Business Index, 2024Q3 <https://www.fsb.org.uk/resource-report/small-business-index-quarter-3-2024.html>

sector was the most pessimistic, with an SBI reading of -79.4 points, a steep decline from the -15.9 it recorded in the previous quarter. Manufacturing, and wholesale and retail

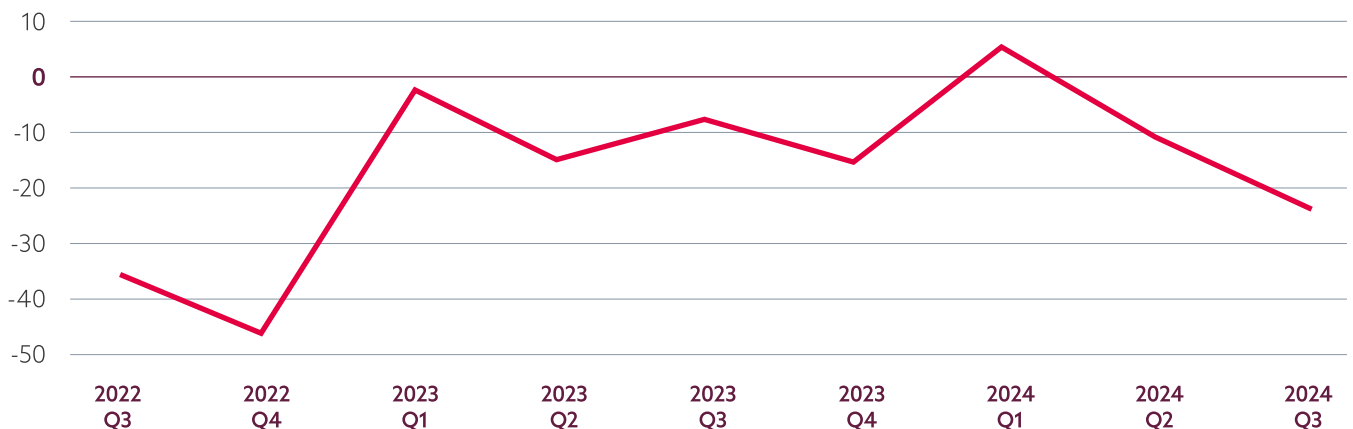
sectors, also recorded significant negative readings, followed by construction, information and communication, and professional, scientific, and technical businesses sectors.

The domestic economy remains the main concern for SMEs

Overall, the domestic economy was cited as the most significant barrier to growth, with 63.8% of businesses expecting it to impact on their growth prospects for 2024Q4, an increase of 3.3% on the previous quarter. Consumer demand was the next most frequent barrier, cited by 33% of respondent small businesses,

with the tax burden and labour costs the next most common reasons. The October 2024 budget measures on employers' national insurance contributions will not have been captured by this SBI, but it will be important to monitor their impact on forthcoming surveys.

Figure 3.1.
UK Small Business Confidence Index, 2022Q3 – 2024Q3



Source: FSB Small Business Index⁵²

The Business Confidence Monitor (BCM) of the Institute of Chartered Accountants in England and Wales (ICAEW) for 2024Q3 reported a slight fall in overall UK business confidence to +14.4 (from +16.7 in 2024Q2). Despite this fall, this index remained well above its historical norm of +5.3.⁵³ This monitor identified that business confidence for all nations and regions of the UK was positive

for the third consecutive quarter, with business confidence in Wales the strongest across the UK, up significantly from +5 in 2024Q2 to +26.1. Across the UK, profits growth declined for the first time during 2024 in 2024Q3, rising by 2.8% year-on-year, but respondent businesses forecast that profits would rise by 5.1% over the subsequent 12 months.

⁵² FSB Small Business Index, 2024Q2 op. cit.

⁵³ 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>

The FSB's SBI is based on a survey of 1,144 small business owners and sole traders, and the latest survey was undertaken between 30 September and 14 October 2024. The SBI does not return a result for Wales or Northern Ireland as the FSB explains that the regional sample sizes are too small. The ICAEW's BCM explains that its survey results are based on 1,000 telephone interviews with ICAEW Chartered Accountants covering

a range of UK sectors, regions, and company sizes. The latest BCM survey covers the period between 15 July to 20 September, earlier than the FSB's SBI, which may partly account for some of the differences in findings. Perhaps the most significant difference between the two surveys, however, is that whereas the SBI is targeted on small businesses, the BCM encompasses businesses of all sizes.

30% of Welsh SMEs experienced growth during 2024 H1

SME Finance Monitor data for Wales,⁵⁴ available for the first half of 2024, reveals that 30% of SMEs in Wales (excluding starts) experienced growth during this period, the same level as during 2023 H2. By business size, 44% of businesses employing 50-249 employees, 47% of those employing 10-49, 32% employing 1-9, and 28% of those with no employees, experienced growth during 2024 H1. Also, in Wales, 41% of SMEs in manufacturing experienced growth over the first half of 2024. Other sectors to experience growth in 2024 H1 include transport, storage, and communication (32%) health and social work (32%), and construction (31%).

The UK SME Finance Monitor three-month analysis to the end of October 2024⁵⁵ reported that 29% of all responding UK SMEs (excluding starts) experienced growth over the previous

three months. Although this growth is above that experienced during the midst of the pandemic during 2020 and 2021, it remains below pre-pandemic levels that were typically around 40%, as it has done since 2022.

Broken down by size, 46% of UK businesses employing 50-249 employees, 45% of those employing 10-49, 37% employing 1-9, and 25% of those with no employees, experienced growth during the three months to the end of October 2024. The proportion of UK SMEs making a profit was almost at pre-pandemic levels, with 76% of SMEs overall making a profit during the first half of 2024.⁵⁶ The SME Finance Monitor also reported that during 2024Q2 increasing costs were the most cited barrier to SME growth (34%), followed by the economic climate (31%), political uncertainty (24%), and legislation (23%).

⁵⁴Data for Wales is derived from an extract of the SME Finance Monitor provided by the Development Bank of Wales.

⁵⁵<https://www.bva-bdrc.com/wp-content/uploads/2024/12/SME-Monthly-charts-October-2024-.pdf>

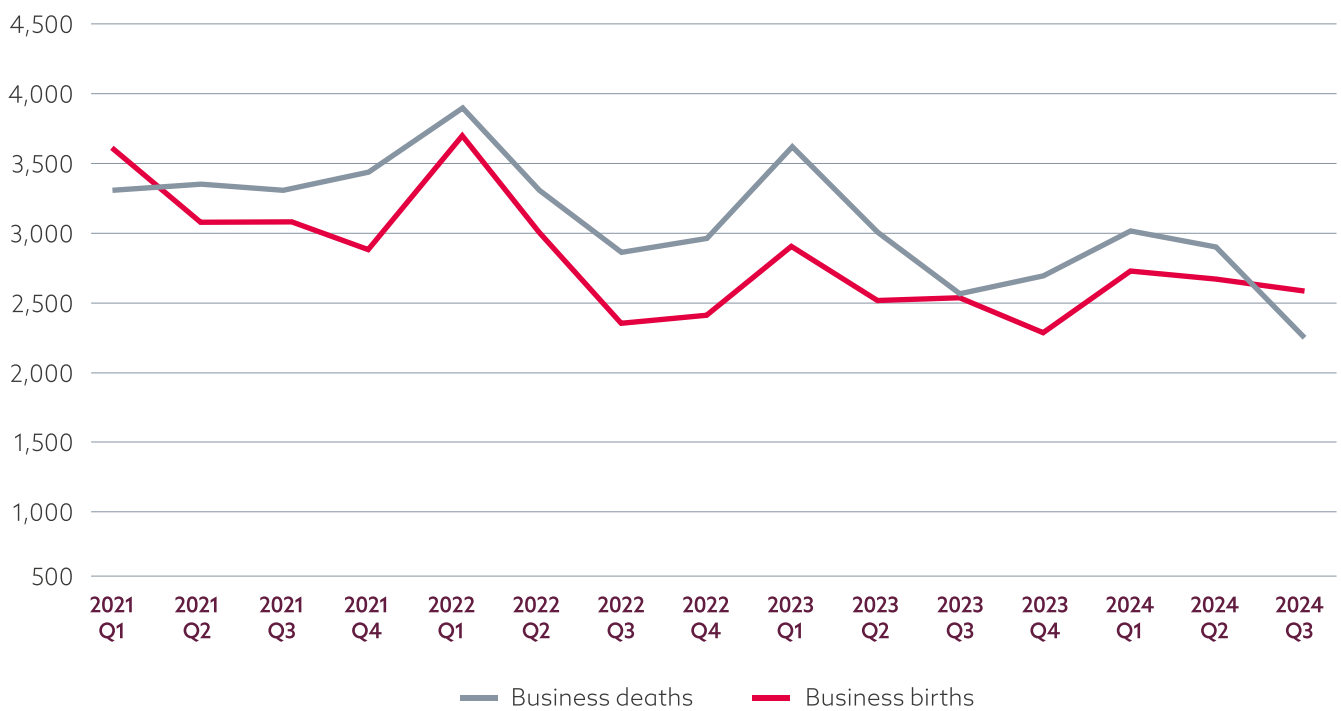
⁵⁶<https://www.bva-bdrc.com/wp-content/uploads/2024/09/SME-charts-Q2-2024-presentation-pack-FINAL.pdf>

Business births in Wales exceed business deaths for the first time in over three years

The ONS reported an estimated total of 75,405 UK business births during 2024Q3; this was 3.7% lower than in 2023Q3.⁵⁷ The ONS also reported that the number of UK business deaths in 2024Q3 was 65,180, which was 4.2% lower than the same quarter in the previous year. In 2024Q3, therefore, the number of business births exceeded business deaths across the UK. Figure 3.2 reveals the variation of quarterly

business births and deaths in Wales over the past 15 quarters.⁵⁸ The number of business births in Wales in 2024Q3 was 2,545, whilst the number of business deaths in Wales during the same period was 2,270. For the first time since 2021Q1 the number of business births in Wales exceeded business deaths, and with both business births and deaths declining since the start of 2024.

Figure 3.2.
Quarterly Business Demography in Wales, 2021Q1 - 2024Q3



Source: ONS Business Demography, Quarterly Experimental Statistics, UK⁵⁹

⁵⁷ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/bulletins/businessdemographyquarterlyexperimentalstatisticsuk/julytoseptember2024>

⁵⁸ <https://www.ons.gov.uk/businessindustryandtrade/business/activitysizeandlocation/datasets/businessdemographyquarterlyexperimentalstatisticslowlevelgeographicbreakdownuk>

⁵⁹ ONS, *ibid.*

Business impacts and conditions survey

The ONS Business Impacts and Conditions Survey (BICS) for 1st to 30th November (Wave 122)⁶⁰ reported that 25.1% of surveyed Welsh businesses experienced increased turnover in November 2024 (UK 21.2%). Some 17.1% of surveyed businesses in Wales expected turnover to increase in January 2025 against a UK average of 18.4%.

The BICS also revealed that, during November 2024, 6.5% of surveyed businesses in Wales (UK 7.1%) reported that the prices of the goods and services sold by their businesses had increased when compared with the previous month, and 14.1% of surveyed businesses

in Wales (UK 16.9%) reported that the prices they had paid for goods and services had increased from the previous month. Some 13.3% of Welsh firms were able to report that they expected their employment to increase in January 2025 (UK 12.6%).

Compared with the same period in 2023, some 28.1% of surveyed Welsh businesses believed their performance had increased (UK 23.5%), with 20.0% believing it had decreased (UK 22.0%). In terms of expectations, 35.9% of Welsh businesses expected their performance would increase in the year ahead (UK 33.0%).

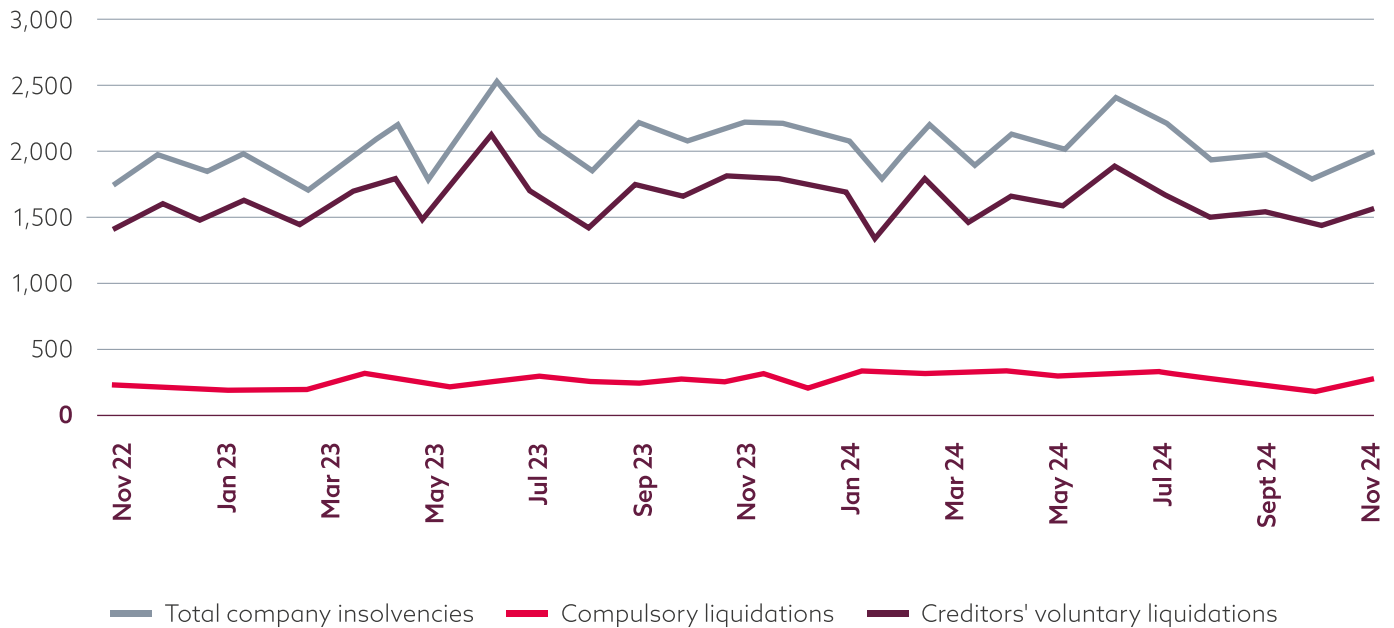
⁶⁰ <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheukeconomy>

Business insolvencies

Figure 3.3 shows the trend of registered company insolvencies in England and Wales from November 2022 to November 2024. The number of insolvencies has continued to fluctuate throughout 2024. The total monthly insolvencies in November 2024 were 1,966, which was 13% higher than the previous

month when it stood at 1,743. This overall rate has continued to be driven mainly by creditors' voluntary liquidations, which stood at 1,565 in November 2024, whilst the number of compulsory liquidations were 254 during the same month.

Figure 3.3.
Monthly Registered Company Insolvencies, England and Wales, Nov 2022 - Nov 2024



Source: UK Government Insolvency Monthly Statistics⁶¹

As indicated in previous reports, County Court judgments for debt can in some circumstances help predict potential future insolvencies as part of a wider trend. Provisional data indicates that during 2024Q3 there were 460,229 County

Court claims, up significantly on 415,495 in the previous quarter, and, of these, 383,398 were money claims, again up significantly on 342,244 in the previous quarter.⁶²

⁶¹ <https://www.gov.uk/government/statistics/company-insolvencies-november-2024/commentary-company-insolvency-statistics-november-2024>

⁶² <https://www.gov.uk/government/collections/civil-justice-statistics-quarterly#2024>

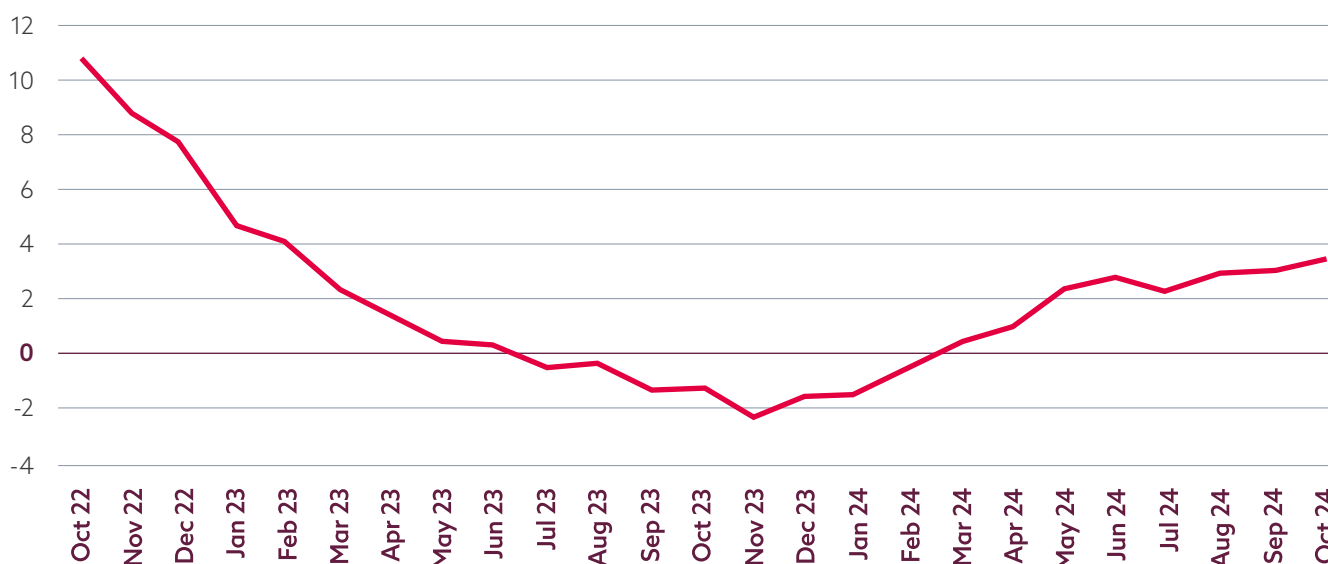
UK house prices increased in the year to October 2024

ONS data which captures both cash and mortgage-based purchases, shows that UK house prices increased by 3.4% in the 12 months to October 2024.⁶³ The average UK house price in October 2024 was £292,000,

which was £10,000 higher than 12 months previously. The average house price in Wales in October 2024 was £222,316, representing a 4% increase from October 2023.

Figure 3.4.

ONS UK House Price Index, Annual Percentage Change, Oct 2022 – Oct 2024



Source: ONS House Price Index⁶⁴

The Bank of England has reported that in October 2024⁶⁵ net mortgage approvals for house purchases were 68,300, the highest since August 2022, and up by 2,200 on September 2024. Net mortgage lending was £3.4bn in October, the highest since November 2022, and up by £0.9bn from September. Meanwhile, the Bank also reported that the

effective interest rate (the actual interest rate paid on newly drawn mortgages) was down to 4.61%, the lowest level since May 2023. Remortgaging approvals rose for a third consecutive month to 31,400 in October, but it should be noted that this data only captures remortgaging approvals with a different lender.

⁶³ <https://www.gov.uk/government/statistics/uk-house-price-index-for-october-2024/uk-house-price-index-summary-october-2024>

⁶⁴ ONS (December 2024) op. cit.

⁶⁵ <https://www.bankofengland.co.uk/news/?NewsTypes=571948d14c6943f7b5b7748ad80bef29&Taxonomies=65c741d9573d48c09359a3c48020fe76&InfiniteScrolling=False&Direction=Latest>

A rise in UK housing investment

In November, the Bank of England reported that housing investment rose by 2.1% in 2024Q2, higher than the flat level expected at the time of its August 2024 report. Although the Bank expects housing investment to fall by 2.1% during 2024Q3, it anticipates a 0.8% rise in 2024Q4.⁶⁶

The S&P Global/CIPS UK construction purchasing managers' index⁶⁷ registered 54.3 in overall construction activity in November 2024, the ninth consecutive month when the headline index was above the neutral 50.0 threshold. The overall index was driven by commercial work and civil engineering, but housebuilding (47.9) continued to experience a downturn for the second month in a row.

UK commercial property values experience mixed results

The fortunes of the UK's commercial property sector during 2024 appear mixed. There are signs that prime office and retail space is rising in value for the first time in two years, and central London office buildings have appeared to have seen the most significant increase in value in the six months to the end of September. This follows a significant fall of nearly a quarter of commercial property value on average across Europe over the last two years.⁶⁸

Conversely, there are concerns that older offices and retail space in less popular locations are continuing to experience limited demand, which, it is feared, could lead to further falls in value. Higher interest rates over the last two years, combined with continuing popularity of hybrid working, have contributed to a sharp downward repricing across commercial real estate.⁶⁹ Overall, UK office vacancy rates are now at their highest levels in ten years.⁷⁰

⁶⁶ <https://www.bankofengland.co.uk/monetary-policy-report/monetary-policy-report>

⁶⁷ <https://www.pmi.spglobal.com/Public/Release/PressReleases>

⁶⁸ Financial Times (15.11.24) 'Prime UK office and shopping centre values rise for first time in 2 years'. <https://www.ft.com/content/befdb8d9-440e-4b69-86b7-c350e83e19db>

⁶⁹ Financial Times (10.07.24) 'Large London office buildings proving almost impossible to sell'. <https://www.ft.com/content/d1ffb476-601c-485e-a020-388631ed7064>

⁷⁰ Financial Times (15.11.24) op. cit.

- An increase in the number of Welsh SMEs using external finance in 2024Q2.
- The average interest rate on new loans to SMEs was 7.26% in October 2024.
- Equity funding for UK small businesses increased in 2024Q1 and 2024Q2, despite a wider decline in total UK equity funding.

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 2024Q3 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 August 2024, relative to the three months to the end of May 2024, and then expected changes to the end of November 2024.⁷¹

Lenders reported that the availability of credit (defined as willingness and ability to supply credit) to the corporate sector was again unchanged in 2024Q3. The availability of credit for small businesses was unchanged and slightly increased for medium-sized and large business. Overall availability was expected to remain unchanged in 2024Q4. Meanwhile, lenders reported that demand from businesses of all sizes was also unchanged in 2024Q3. Looking forward, demand from small businesses was expected to decrease slightly, and was expected to increase slightly for medium-sized businesses, as well as to increase for large business during 2024Q4.

In the three months to September 2024, UK Finance reported, overall gross lending to UK SMEs by the main high street banks grew for the third successive quarter of year-on-year-growth, even though lending remains subdued compared with pre-Covid levels. There are sectoral differences, however, with a modest growth in lending to SMEs in real estate and professional services, agriculture, and recreational and personal services, but a much weaker lending profile to SMEs in manufacturing, and transport and storage.⁷²

The Credit Conditions Survey found that lenders reported that default rates on loans to businesses of all sizes were unchanged during 2024Q3 and were expected to remain unchanged during 2024Q4. Losses in the event of default were also unchanged for businesses of all sizes in 2024Q3.⁷³

⁷¹ <https://www.bankofengland.co.uk/credit-conditions-survey/2024/2024-q4>

⁷² <https://www.ukfinance.org.uk/system/files/2024-12/Business%20Finance%20Review%202024%20Q3.pdf>

⁷³ <https://www.bankofengland.co.uk/credit-conditions-survey/2024/2024-q4>

An increase in the number of Welsh SMEs using external finance in 2024Q2

The SME Finance Monitor published in September 2024⁷⁴ found that 43% of UK SMEs had used some form of external finance during 2024Q2, lower than the 48% during 2024Q1. In Wales, however, the percentage of SMEs using some form of business finance increased during 2024Q2 to 59%, up from 47% during 2024Q1.⁷⁵ During 2023, 46% of UK SMEs had used some form of external finance compared with 43% in Wales.

Across the UK as a whole, the use of credit cards and overdrafts by SMEs increased at the start of 2023, and this pattern remained consistent during the first half of 2024. Of those SMEs in

Wales using some form of external finance 16% had used overdrafts, 14% leasing/hire purchase, 13% bank loans or commercial mortgages, and 12% had used credit cards during 2024H1.

The percentage of UK SMEs injecting personal funds into their business fell to 36% in 2024Q2 (45% in Wales), from 39% in 2024Q1 (30% in Wales), with 22% of these businesses (31% in Wales) believing they had no choice in doing so. Meanwhile, around 20% UK SMEs were still repaying pandemic funding in the year end 2024Q2, whilst during 2024H1 23% of SMEs in Wales were still repaying pandemic funding.

⁷⁴ <https://www.bva-bdrc.com/wp-content/uploads/2024/09/SME-charts-Q2-2024-presentation-pack-FINAL.pdf>

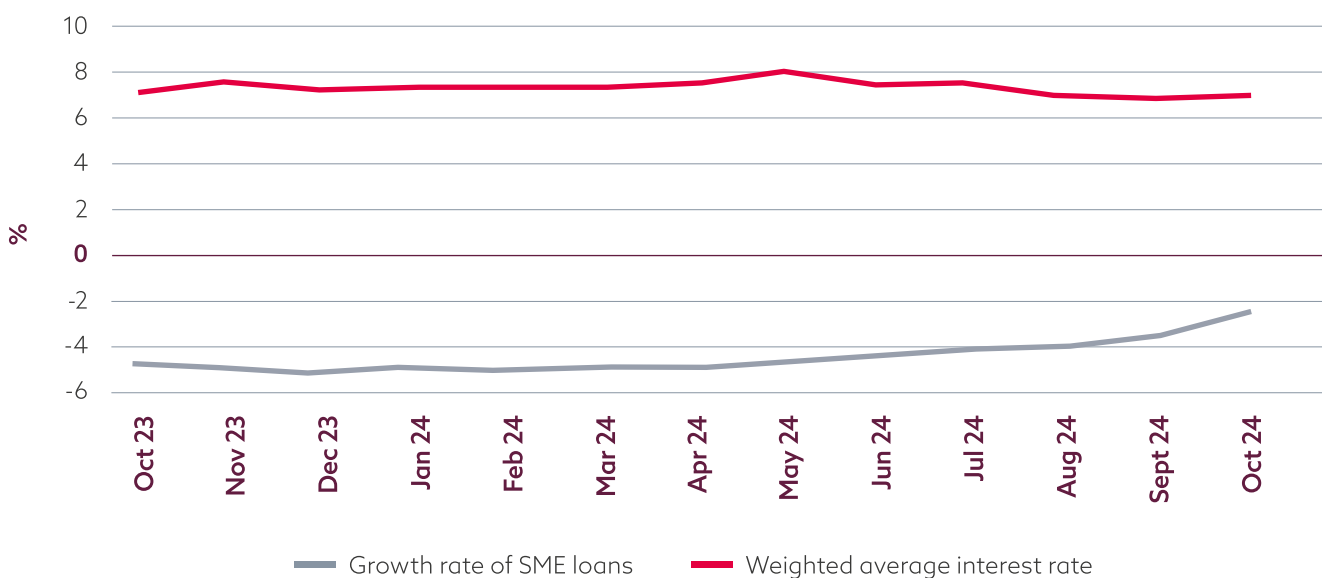
⁷⁵ Data for Wales is derived from an extract of the SME Finance Monitor provided by the Development Bank of Wales.

The average interest rate on SME loans in October 2024 is lower 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 for the period October 2023 to October 2024.⁷⁶ The growth rate of borrowing by SMEs increased to -2.9, up from -3.7 in September, and continuing a rising

monthly trend since December 2023 when it stood at -5.0. Meanwhile, the effective interest rate on new loans to SMEs was 7.26% in October, up from 7.16% in September, but lower than the 7.34% in October 2023.

Figure 4.1
Growth Rate SME Loans and Effective Interest Rate Loans to SMEs, Oct 2023 – Oct 2024



Source: Bank of England⁷⁷

At its December meeting the Bank of England’s Monetary Policy Committee (MPC) agreed to hold interest rates at 4.75%.⁷⁸ The Bank reported that twelve-month CPI inflation had increased

to 2.6% in November, up from 2.3% in October. The Bank expects headline CPI inflation to continue to rise slightly in the near term.

⁷⁶ 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://wwwtest.bankofengland.co.uk/boeapps/database/fromshowcolumns.asp?Travel=NxAZxSUx&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=CFMZ6HQ&UsingCodes=Y&Filter=N&title=CFMZ6HQ&VPD=Y>

⁷⁷ Bank of England, Money and Credit <https://www.bankofengland.co.uk/news/?NewsTypes=571948d14c6943f7b5b7748ad80bef29&Taxonomies=65c741d9573d48c09359a3c48020fe76&InfiniteScrolling=False&Direction=Latest>

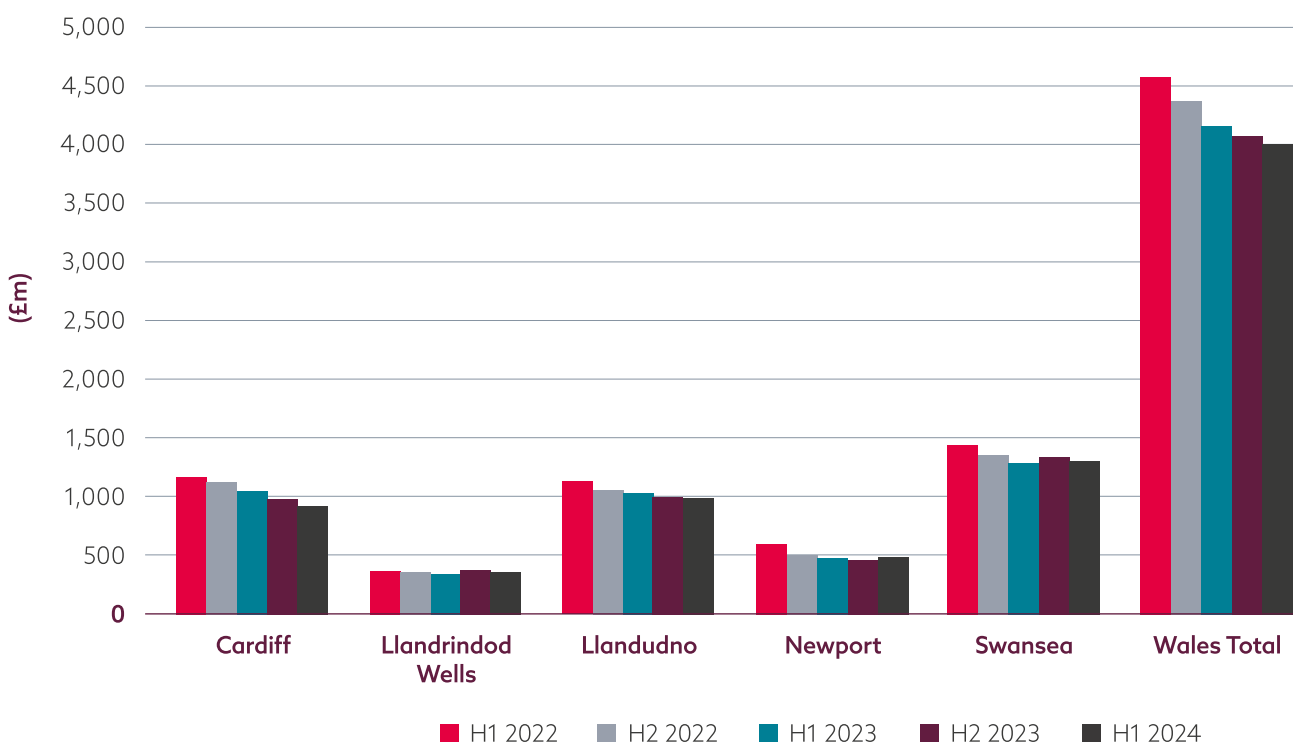
⁷⁸ <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-summary-and-minutes/2024/monetary-policy-summary-and-minutes-december-2024.pdf>

Stock of lending to Welsh SMEs returning to pre-pandemic levels

UK Finance SME lending within UK postcodes data is published for each half year period, with the latest published data available for 2024 H1.⁷⁹ The latest data indicates a continued reduction in the stock of lending to Welsh SMEs during the first half of 2024. The overall lending volume decreased from £4.590bn in 2022 H1 to £3.981bn in 2024 H1, a significant reduction of £608m. It is important to understand this data within a longer-term context, however, as the overall stock of lending appears to be returning to pre-pandemic levels, perhaps reflecting the continued paying down of Covid loans by Welsh SMEs.

Figure 4.2 shows SME lending by Welsh postcode area over the period 2022 H1 to 2024 H1. The Swansea area postcode continued to receive the most SME lending in 2024 H1 (£1.25bn), whilst Llandudno received £980m and Cardiff £926m. It should be noted 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, SMEs⁸⁰

⁷⁹ UK Finance, SME Lending within UK Postcodes <https://www.ukfinance.org.uk/data-and-research/data/sme-lending-within-uk-postcodes>

⁸⁰ 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.⁸¹

The *Small Business Finance Markets 2023/24*⁸² report by the British Business Bank outlined the recent changes in the UK venture capital market. By 2022Q1 there was a substantial amount of dry powder (committed but undeployed capital) stockpiled in venture capital funds as low interest rates encouraged an increased allocation of private capital towards investments in search of higher returns.

Challenging market conditions and potential overvaluations has led to a slowing of these venture capital funds being deployed. By the end of 2023, UK-based venture capital funds had £13.4bn of total dry powder for investing in the UK, 58% more than the same point in 2021. However, the value of new funds raised by UK-based venture capital fund managers was £3.7bn, 41% less than the amount raised in 2022 pointing to a market slow down.

As indicated in the previous quarterly report, overall equity investments in UK small businesses declined by 48% to £8.8bn in 2023, and the number of announced deals fell by 25% to 2,152.⁸³ Wales was the only part of the UK during 2023 to see an increase in the total investment value (up to £0.11bn), even though the number of deals was marginally down.

Equity funding for UK small businesses increased in 2024Q1 and 2024Q2

The British Business Bank's *Nations and Regions Tracker*⁸⁴ indicates that there was an overall continued decline in deal volumes and values in most areas of the UK during the first half of 2024. Nevertheless, there were some signs of recovery, with the value of equity investments in smaller

businesses rising by 7% in 2024Q1 compared with 2023Q1, despite a 16% drop in overall deal numbers, and this growth continued into 2024Q2. This was most noticeable in London (70% relative to 2023Q2), but other parts of the UK also saw increases (27% relative to 2023Q2).

⁸¹ https://developmentbank.wales/sites/default/files/2019-04/Equity%20Clusters%20Report_final.pdf

⁸² British Business Bank (2024). *Small Business Finance Markets 2023/24*. <https://www.british-business-bank.co.uk/sites/g/files/sovrnj166/files/2024-03/small-business-finance-market-report-2024.pdf>

⁸³ British Business Bank/Beauhurst (2024). *Small Business Equity Tracker*. <https://www.british-business-bank.co.uk/about/research-and-publications/small-business-equity-tracker-2024>

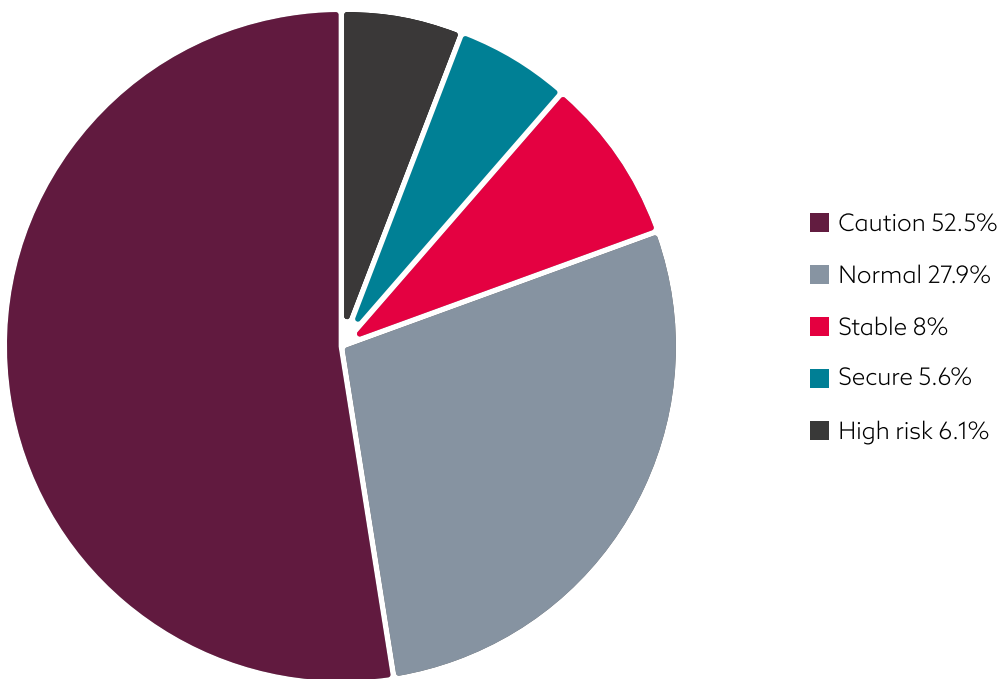
⁸⁴ British Business Bank (2024). *Nations and Regions Tracker*. www.british-business-bank.co.uk/about/research-and-publications/nations-and-regions-tracker-2024

Some changes in the year to January 2025 in firms in different credit risk categories

The Bureau van Dijk FAME database of Companies House data was searched in January 2025 to seek evidence of the proportion of Welsh SMEs that fell into different credit risk categories. The search yielded 96,565 SMEs with a known credit rating (a 6% increase of firms with a credit rating since the FAME search undertaken around a year earlier in December 2023). It is important to recognise that this source may not identify Wales' smallest firms. Figure 4.3 reveals that of this total, 6.1% of SMEs in Wales were estimated to be in the

Highest risk credit rating category. This was up from the 5.4% in the December 2023 search or by 939 registered businesses. The Caution category comprised 50,713 SMEs or 52.5% 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. However, the number of businesses in the Caution category has grown by 3,454 in the period December 2023 to January 2025.

Figure 4.3.
Percentages of Welsh SMEs in different credit risk categories, January 2025



Source: FAME Database

- In 2024/25Q2 the Development Bank of Wales completed 119 investments with a total value of £33.8m. These investments were associated with over 1,630 new and safeguarded jobs.
- Businesses in the south east Wales region accounted for the highest share of investment value (47%) in 2024/25Q2, while businesses in north Wales secured the highest share of total jobs (45%) in the same period.
- The construction sector dominated investment activity in 2024/25Q2, accounting for 35% of investment.
- The highest number of jobs created or safeguarded by Development Bank investments in 2024/25Q2 were in the manufacturing sector (almost 900 jobs).

The Development Bank completed 119 investments in 2024/25Q2, supporting 1,634 jobs

Figure 5.1 shows a decline in the number of investments made by the Development Bank of Wales in the second quarter of 2024/25 when compared with the previous three quarters. The number of investments in 2024/25Q2 is also below the number of investments completed in the same period of the previous year (123 investments were made in 2023/24Q2).

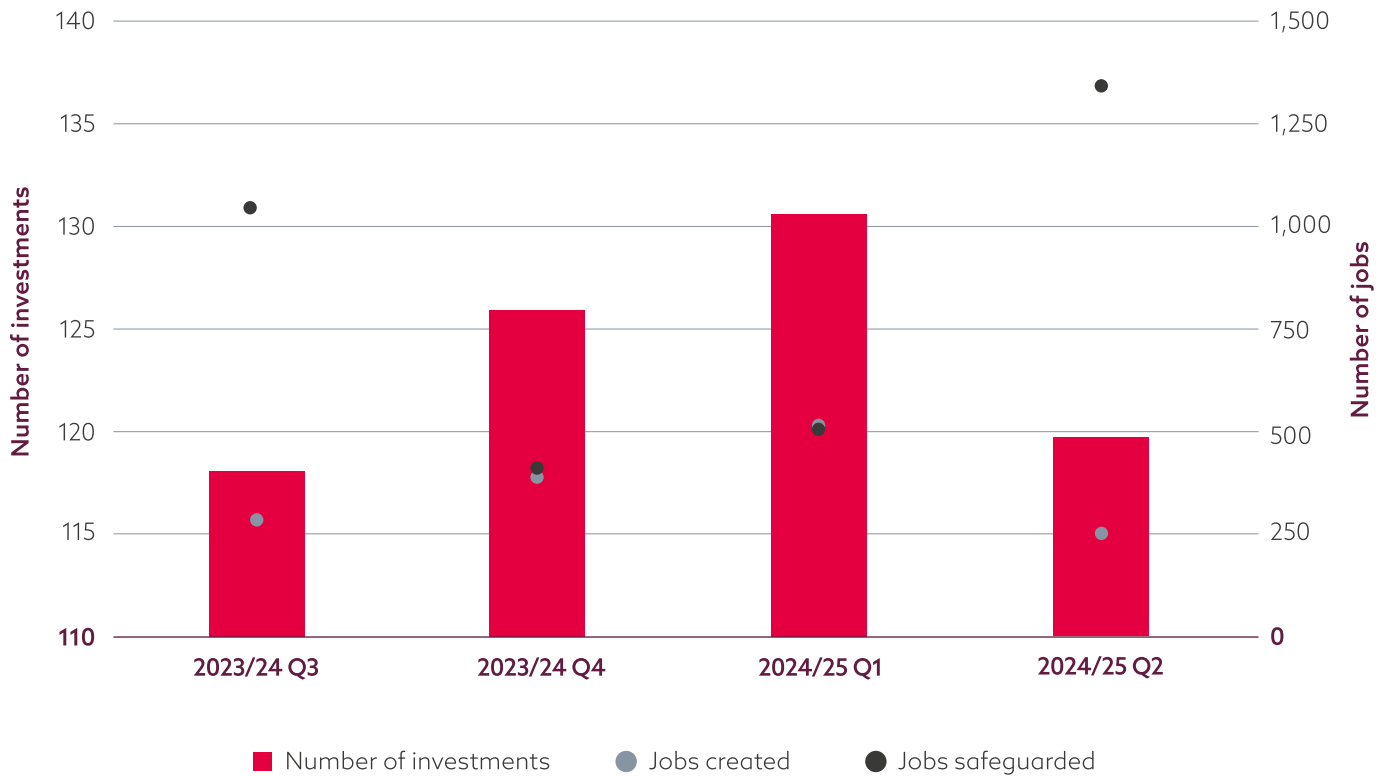
Whilst the number of investments declined in the most recent quarter, the number of jobs created or safeguarded linked to these Development Bank investments increased to more than 1,630

jobs. The number of new jobs created was lower in 2024/25Q2 than in the other periods shown in Figure 5.1, however the number of jobs safeguarded is significantly above the previous three quarters.

Over 82% of total jobs supported by Development Bank investments in 2024/25Q2 were safeguarded jobs, with almost 18% representing new jobs. Caution is needed when interpreting quarterly investment data which can be volatile and influenced by a small number of significant investments.

Figure 5.1.

Investments and jobs created and safeguarded, 2023/24Q3 – 2024/25Q2



The total value of investments made during 2024/25Q2 was £33.8m

Figure 5.2 shows an upward trend in the total value of investments in the opening quarters of the 2024/25 financial year, with almost £66m of business and property development funds invested by the Development Bank of Wales during the first half of the year. During this six-month period 235 businesses were supported by Development Bank funding.⁸⁵

Figure 5.2 also shows the particularly high levels of investment in the third quarter of 2023/24. New debt and equity investment in 2024/25Q2 was almost £23.3m, with a further over £10.5m of property development. Equity investment (not shown separately in Figure 5.2) comprised less than 8% of total new debt and equity investment in 2024/25Q2.

⁸⁵The number of investments made will not match the number of businesses supported, as businesses may already have a live investment in the period and are therefore excluded from the count.

Figure 5.2.
New Investment by investment type, £m, 2023/24Q3 - 2024/25Q2

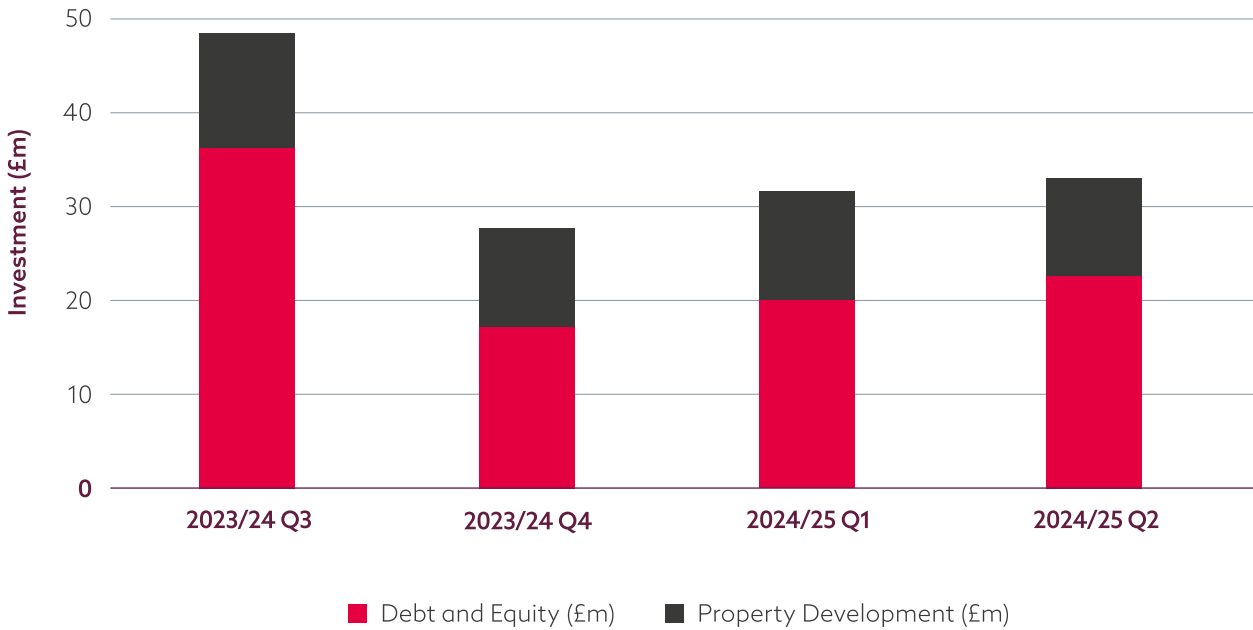
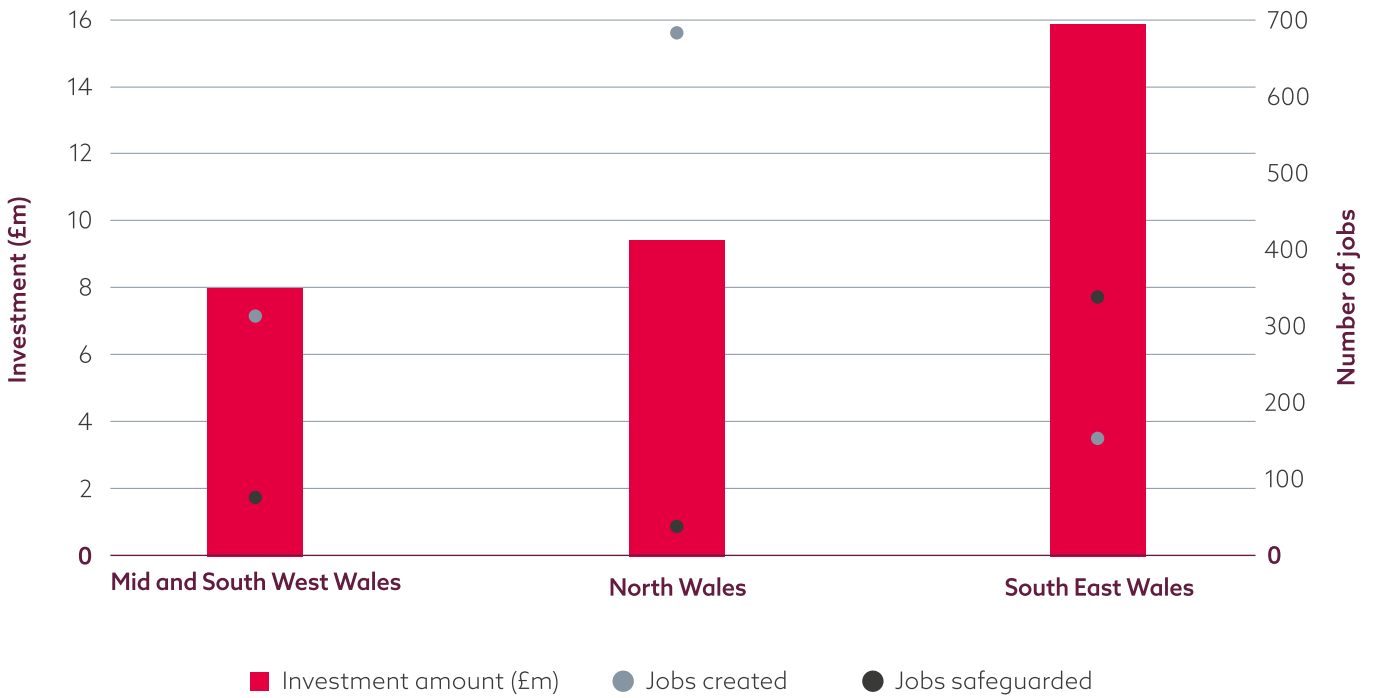


Figure 5.3 shows businesses in south east Wales received almost £15.9m (47%) of investment funds from 68 investments in 2024/25Q2, creating or safeguarding almost 500 jobs. Businesses in north Wales secured £9.5m of Development Bank funding from

20 investments, linked to 735 new or safeguarded jobs. While businesses in mid and south west Wales secured 31 investments totalling £8.4m of investment, supporting 400 new or safeguarded jobs.

Figure 5.3.
Investment values, £m, and jobs created and safeguarded by location 2024/25Q2



On average, each investment made by the Development Bank in 2024/25Q2 was connected to around £284,000 of funding

The average investment value in 2024/25Q2 is above the average value for the previous quarter (which was less than £240,000). Average investment values in 2024/25Q2

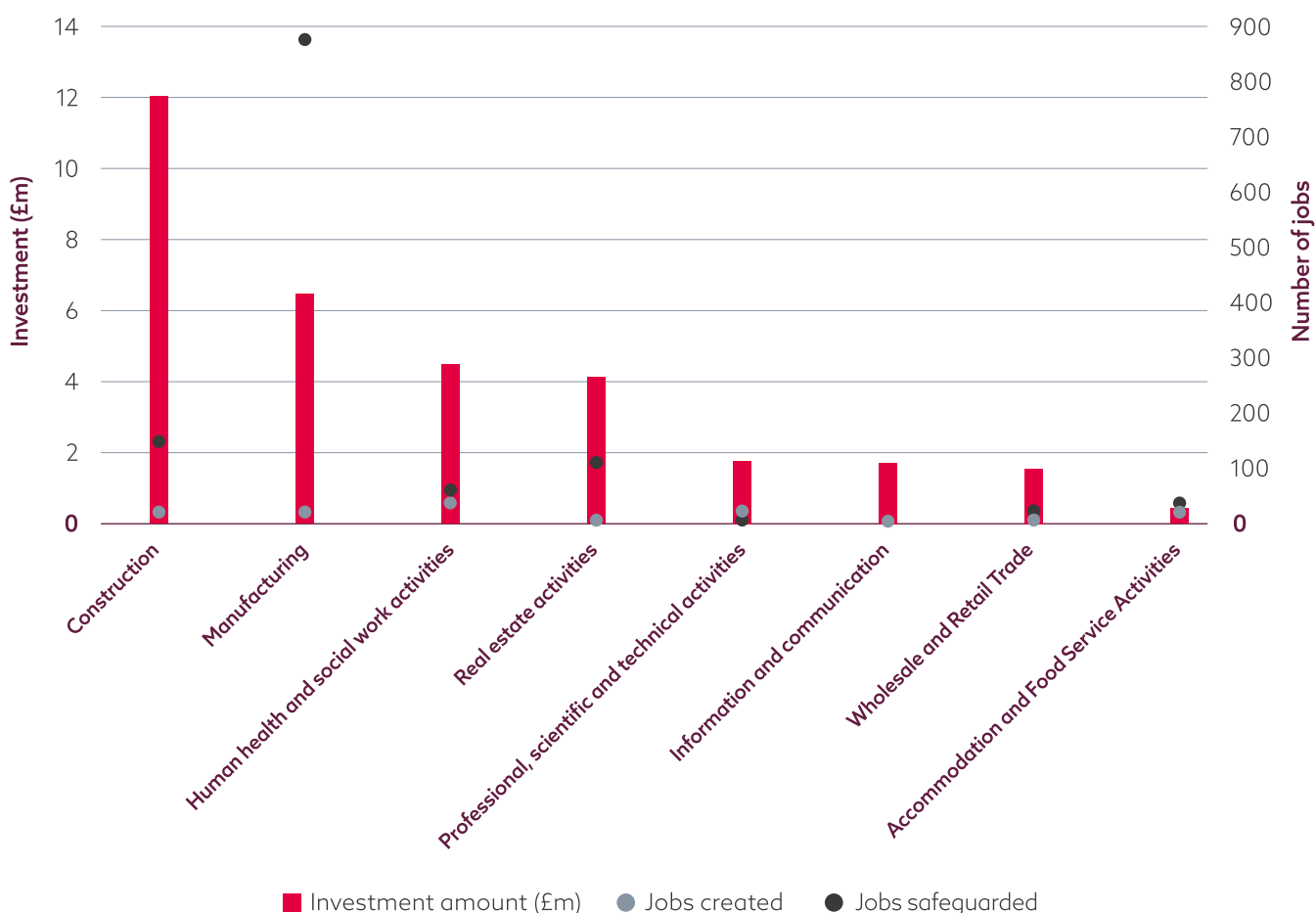
were highest in north Wales (over £475,000 per investment) and lowest in south east Wales (almost £234,000 per investment).

The construction sector dominated investment lending in 2024/25Q2, accounting for almost £12m of funding

Figure 5.4 shows the sectors of the economy which secured over £500,000 of Development Bank investment funding during 2024/24Q2. Business in the construction, manufacturing, human health and social work, and real estate sectors secured over 80% of all investment

funding in 2024/25Q2. Businesses in the manufacturing sector received just over £6.7m (almost 20%) of Development Bank investment funding but accounted for over half of all jobs created or safeguarded in 2024/25Q2, with the majority of these being safeguarded jobs.

Figure 5.4. Investment value, £m, and jobs by sector 2024/25Q2. Selected sectors with investment value above £0.5m



Prospects for small firms in Wales during 2025 are inevitably shaped by a series of local, national and international factors. On the positive there is every indication that inflation, in spite of some blips, has been brought to heel. This brings the prospect of a series of interest rate cuts during 2025 which will benefit those small firms in Wales seeking external finance. Some institutions are expecting rates to fall as low as 3.5% in 2025. Set against this better news has been a UK Government budget which introduced an estimated £40bn of tax rises, and with much of this linked to increased employer contributions on national insurance, and a reduction in thresholds. For many small businesses it is difficult under current trading conditions to see how these monies can be recouped; and with the prospect of further tax increases ahead to fund public services. Small firms in Wales also face increases in the National Minimum Wage.

Part of the spending plans announced in the UK budget resulted in additional funding of £1.5bn for the Welsh Government in resource and capital spending during 2025-26. Whilst this has enabled an increase in allocations across policy portfolios in this budget, there is some concern about next year's budget round which "might feel like a return to austerity for some public services".⁸⁶

Small firms in Wales are also not immune from wider geo-political tensions. There is a great deal of uncertainty around the trade policy that will be pursued by the new Trump administration in the US, but this very uncertainty will impact confidence in the opening months of 2025, not least if stronger tariffs are introduced on imports into the US.

Notwithstanding national and international factors, critical context for Wales going into 2025 is a continuing story of poor productivity growth and with some concerns in Wales on the juxtaposition between employment growth and productivity growth. Recent research in Wales (Henley, 2024)⁸⁷ has re-ignited the productivity debate and with work focusing on skills eco-systems, R&D ecosystems and business support systems operating in Wales. However, there is a growing recognition that the Welsh economy is not performing as well as peer economies across the UK and with Henley (2024, p.2-3) arguing that: "Scotland and Northern Ireland appear to have made more advantage of the opportunities offered by devolution for better designed economic and business development policy." Tough economic conditions through 2025 and the burden on the Welsh Government purse to maintain public services make it more difficult for policymakers to develop strategies that might assist with promoting business productivity in Wales.

The continuing winding down of activities at Tata steel in south Wales will further add to the pressures of low productivity and high economic inactivity in Wales. While there are plans agreed to develop electric arc furnace technology for steelmaking at the Port Talbot site,⁸⁸ this is not planned to be operational until the end of 2027, and with a significantly lower workforce. Other early-stage plans for Port Talbot include the Celtic Freeport and a jet fuel facility.⁸⁹

During the opening half of the 2024/25 financial year, the Development Bank of Wales supported 235 businesses with loan or equity investments. During 2024/25Q2 Development Bank investments totalled almost £34m, with this funding associated with over 1,630 new and safeguarded jobs.

⁸⁶ <https://blogs.cardiff.ac.uk/thinking-wales/making-sense-of-the-welsh-governments-draft-budget-for-2025-26/>

⁸⁷ See [Welsh productivity performance: lost cause or still waiting for a miracle? | Welsh Economic Review](https://www.welsh-economy.com/news/welsh-productivity-performance-lost-cause-or-still-waiting-for-a-miracle-2/)

⁸⁸ <https://www.bbc.co.uk/news/articles/c23kdg1y50yo>

⁸⁹ <https://www.walesonline.co.uk/news/wales-news/vision-future-steel-town-searching-hope-30704368>

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	October 2024	1.1	1.5
OECD	December 2024	0.9	1.7
NIESR	November 2024	0.9	1.2
Other non-city forecasters			
CBI	December 2024	0.9	1.6
Experian Economics	December 2024	0.9	1.7
Oxford Economics	December 2024	0.9	1.4
City forecasters			
Capital Economics	December 2024	0.8	1.4
JP Morgan	December 2024	0.7	0.8
KPMG	December 2024	0.8	1.5

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

Appendix 2:

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	November 2024	4.3	4.0
OECD	December 2024	4.2	3.9
NIESR	November 2024	4.2	4.0
Other non-city forecasters			
CBI	December 2024	4.4	4.3
Experian Economics	December 2024	4.2	4.2
Oxford Economics	December 2024	4.4	4.4
City forecasters			
Capital Economics	December 2024	4.3	4.3
JP Morgan	December 2024	4.2	4.2
KPMG	December 2024	4.4	4.4

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

Appendix 2:

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	November 2024	2.3	2.4
OECD	December 2024	2.8	2.5
NIESR	November 2024	2.6	2.3
Other non-city forecasters			
CBI	December 2024	2.6	2.6
Experian Economics	December 2024	2.4	2.6
Oxford Economics	December 2024	2.6	2.9
City forecasters			
Capital Economics	December 2024	2.6	2.3
JP Morgan	December 2024	2.4	2.9
KPMG	December 2024	2.6	2.4

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

Appendix 2:

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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	November 2024	3.6	2.9
Liverpool Macro Research	December 2024	3.4	3.0
NIESR	November 2024	4.4	1.3
Other non-city forecasters			
CBI	December 2024	3.4	2.7
Experian Economics	December 2024	3.7	3.7
Oxford Economics	December 2024	3.8	3.9
City forecasters			
Capital Economics	December 2024	3.9	3.3
HSBC	December 2024	3.7	3.2
UBS	December 2024	3.6	2.8

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

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