

The Welsh Growth Report: Small business leader outlook over time 2015-2023

Quarterly insights from the
Business Barometer study

Edition 4

Tomorrow. Together



Introduction



Welcome to the fourth instalment of our quarterly insight bulletins series from Novuna Business Finance

This new edition - The Wales Growth Report - provides insight into the economic outlook of small business owners in Wales over the past nine years. For the first time, we have pulled together the Welsh findings from our Business Barometer research - an ongoing study analysing the viewpoints of small business owners since 2015.

The findings in this report paint a picture of resilience and adaptability, as Welsh business owners have reacted to one of the most challenging periods in our recent history. The past few years have seen national unrest amidst the Brexit referendum, a global pandemic and, more recently, the seismic impact of a cost-of-living crisis.

This report looks at growth aspirations for small business owners in Wales throughout this period, exploring the various growth initiatives that have been prioritised, whilst examining the perceived challenges holding back some enterprises. Our quarterly report guides us in understanding the mindset of Welsh small business owners, during disruptive times of change and uncertainty.

By comparing findings every quarter, we have built up a robust national picture of small business outlook. For this series of reports, every three months we pick one of the many focus topics from our research archive and review trends over time. For this new fourth edition, we have decided it is high time to focus not on a single topic but an important principality in the UK – Wales.

Wales is currently adapting to a new international trading environment outside of the EU which brings with it both opportunities and challenges. This new report from Novuna Business Finance shares insight on how small business owners have faced and tackled issues over the last decade – and how their views compare and contrast to the rest of the UK.

We hope you enjoy this bulletin and if you have any discussion points or requests for further information, we would love to hear from you.

Geoff Maleham
Managing Director
Novuna Business Finance



About Novuna Business Finance

Novuna Business Finance provides business finance to SMEs and bigger corporations across the UK. This includes asset finance, stocking, block discounting and sustainable project finance provided through brokers, vendor organisations, manufacturers and direct to the business community.

With an asset portfolio of more than £1.7bn, the business is active across multiple sectors from transport and agriculture to construction and manufacturing and was awarded Best Leasing and Asset Finance Provider at the 2023 Business Moneyfacts Awards.

The business' Sustainable Project Finance team is also supporting the development and construction of sustainable energy and transport projects, which are critical to the decarbonisation of the UK's infrastructure.

Novuna Business Finance is a trading style of Mitsubishi HC Capital UK PLC, part of

Mitsubishi HC Capital Inc., one of the world's largest and most diversified financial groups, with over £60bn of assets.

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<https://www.novuna.co.uk/business-finance/>

Methodology

The research for this quarterly report was started in 2015 and then conducted by YouGov at six-monthly intervals, twice-yearly - during Q1 and Q3 every year since 2017.

For each cycle of research, a nationally representative sample of more than 1,000 small business decision makers and owners of UK small businesses were surveyed.

The research was conducted online.

A decade of resilience – small business growth

Over the past decade, small businesses throughout Wales have faced a torrent of adverse challenges, resulting in a quarter-on-quarter growth outlook that has been inconsistent and, at times, unpredictable. A review of the growth outlook of Welsh small businesses over time underlines the long-term impact that Brexit and the Covid-19 Pandemic have had on the growth trajectory of Welsh small businesses.

Back in 2015 and 2016, the percentage of Welsh small businesses predicting growth was strong at 44% and 42% respectively. Welsh small business optimism during this period surpassed the national average (41% in 2015).

During the period of prolonged Brexit uncertainty from 2018, there was a sharp fall in the percentage of Welsh small businesses predicting growth – falling to 18% by the end of 2018 – half the national average (36%). This was compounded in 2020 when Welsh small business confidence plummeted to its lowest point, following the first national lockdown. With just 3% of businesses in the principality optimistic about achieving some form of growth, this was significantly lower than the UK average of 13% during that quarter of seismic disruption.

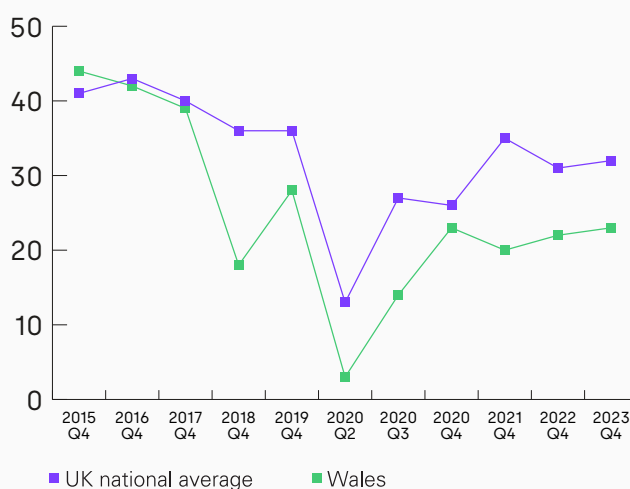
Despite these setbacks, some strong recovery was seen by Q3 2020, with 14% of

Welsh small business owners predicting growth. This optimism went on to peak at 30% by Q2 2022, which indicates that it took a full 12-months for Welsh business owners to fully adapt to the disruption caused by the pandemic.

The post-Covid years have seen the growth predictions of Welsh small business owners settle at a consistent level - but compared to the pre-Brexit years, the percentage of Welsh enterprises forecasting growth is almost half of what it was nine years ago.

The research findings over time suggest that Welsh business owners have been impacted more by the long tail of Brexit and Covid. They have shown resilience at responding to economic shocks but, for the last four years, confidence levels remain lower than they were before 2017.

Percentage of Welsh businesses predicting growth over time (compared to the national average)

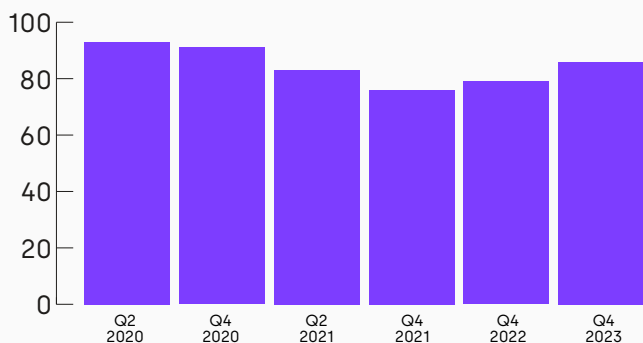


What are the key challenges in Wales?

Despite Covid and Brexit fading from public attention, both events continue to this day to impact the growth forecasts of Welsh enterprises. Whilst small businesses in Wales are working towards recovery from

the impact of both events, a substantial 85% of small business owners say that they are facing more obstacles now than before the pandemic.

Percentage of Welsh businesses feeling market factors are holding them back



The biggest barrier to growth has been the long-term impact of the Covid pandemic. At its peak, 55% of small businesses in Wales expressed concerns about restrictions and the far-reaching impact of the pandemic, higher than the national average (42%). This continued into Q4 2020 (24%), and its effects are still evident from our latest research, with 16% of Welsh businesses expressing ongoing concern about the long-term impact of Covid in Q2 2023.

Brexit has also left an enduring mark on Welsh businesses, with repercussions persisting since Q4 2020 (30%) to the present day. And the impact is particularly striking when considering that in 2020, 22% of Welsh businesses identified expanding into overseas markets as a key strategy to

secure business growth. The aftermath of Brexit has cast a shadow on these growth aspirations. Three years later, 22% of businesses in Wales are still dealing with the consequences of Brexit, setting Wales apart from the rest of the UK in terms of prolonged growth challenges.

When looking at other factors that are holding back Welsh businesses, concerns over the cost of skilled labour has seen a steady increase, indicating perhaps the persistent challenges for businesses in Wales in attracting and retaining skilled talent. Red tape has also been a problem, but more pronounced in recent quarters, possibly due to the changed business landscape after Brexit.

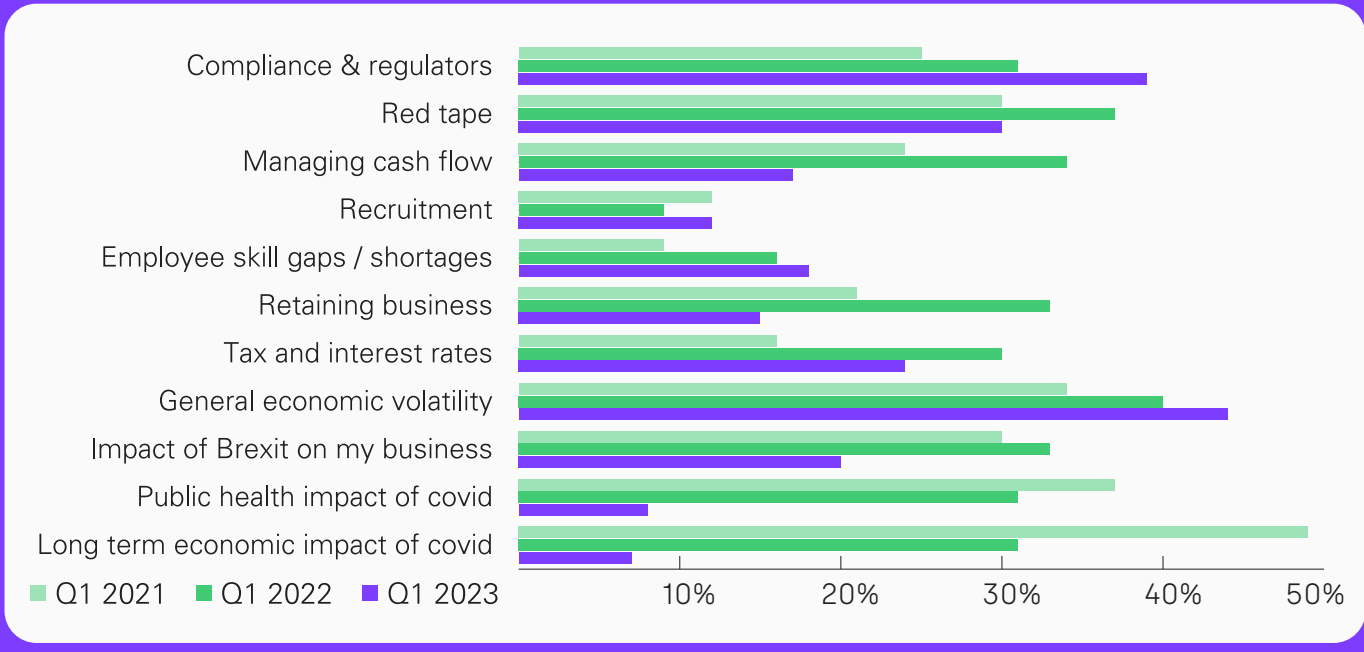
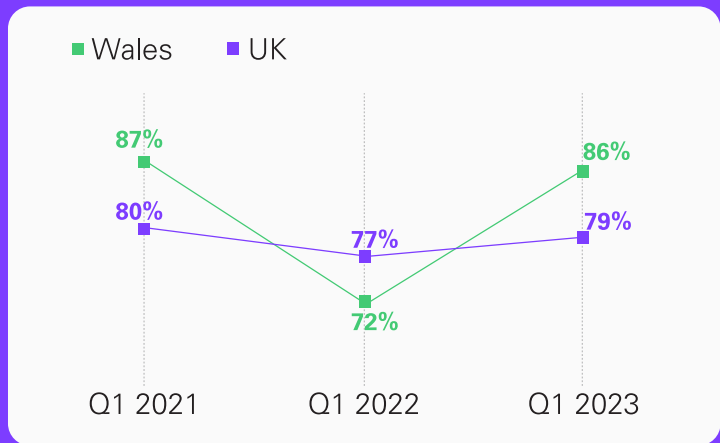
In addition to the tangible issues that are holding businesses back, small business owners in Wales are dealing with a spectrum of concerns that frequently translate into sleepless nights. Furthermore, the research suggests that the percentage of small business owners losing sleep over business worries is on the rise. In 2023 alone, a staggering 86% of business owners confessed to losing sleep over a range of business-related issues.

While concern around Brexit is still present, more immediate worries including compliance and regulatory hurdles, tax-related anxieties and the impact of the cost-of-living crisis are also at play keeping Welsh business owners awake at night.

Welsh business owner views on the top barriers to growth

	Q2 20	Q4 20	Q2 21	Q4 21	Q2 22	Q2 23
Net % feeling held back (Wales)	93	91	83	76	79	86
Long term impact of Covid	3	55	34	24	9	16
Brexit impact	0	30	27	21	18	22
Red tape	10	17	15	22	17	32
Cost of skilled labour	8	7	10	14	18	18
Fixed costs / overheads	n/a	3	18	7	19	25

Issues keeping Welsh small business owners awake at night



Strategies to achieve future growth

Despite the various perceived challenges, Welsh small businesses remain undeterred, with two thirds of businesses in 2023 (65%) actively pursuing strategies to achieve future growth. While growth has been muted in recent years, the commitment to growth has been consistent over a decade and is a testament to the fighting spirit of Welsh enterprises - and their tenacity to adapt, innovate and respond to challenges with new strategies to secure future growth.

Without this resilience and determination, the picture could have been very different. For example in spring 2020 Welsh Business confidence plummeted to just 3% as the first

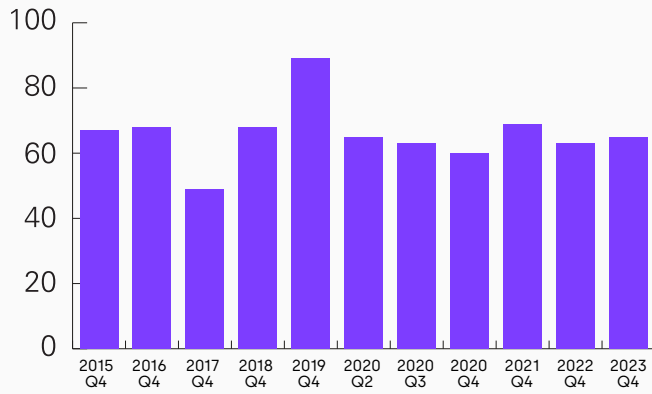
national lockdown was imposed. This was a record low for any region in the UK, but the resilience from Welsh business owners to adapt was also the strongest in the UK. By Q3 2020, 89% of Welsh small businesses said they were working on new initiatives to secure future growth – the highest of any UK region and a record-high for Wales over the last decade. Once again, in Wales the economic shocks had a bigger immediate impact on growth forecasts but the fightback in terms of adapting with new plans was also the strongest.

Looking ahead

As a new year begins, there are grounds for optimism for 2024 in Wales. Many Welsh business owners have focused attention on

keeping fixed costs down (56%), improving cash flow (29%) and re-assessing financial commitments (14%) – all strategies to help achieve growth in 2024.

Percentage of small businesses working on new initiatives to secure future growth



Despite the successive challenges posed by Brexit, Covid and the cost of living crisis - Welsh small businesses are adapting and striving for growth. The strategic priorities focused on before the Brexit and Covid era - such as investing in new equipment and renewing financial commitments - have returned as areas to focus on for 2024. The importance placed on looking to expand the workforce and looking for opportunities to expand beyond the domestic market reflects a forward-thinking and positive approach.



The top priority areas to achieve growth going into 2024



Assessment



A reflection on the research

By Jo Morris, Head of Insight, Novuna Business Finance

A snapshot of small business outlook in Wales over the last decade presents a picture that varies to the national average. Whilst growth forecasts for the UK at large have remained remarkably consistent, in Wales the picture has fluctuated more significantly.

Today, the picture in Wales has stabilised but quarter-on-quarter growth projections since 2022 are lower than they were before 2017. This suggests the long-term legacy of Brexit and Covid are still felt. Indeed, many of the growth barriers cited by Welsh business leaders link to this – with fewer enterprises looking to expand overseas and ongoing challenges with hiring skilled labour.

Looking back over the last decade, when there have been economic shocks small business growth forecasts have suffered more profoundly in Wales. Set against this,

the resilience of Welsh business owners to adapt and look at new long-term plans to secure future growth has been stronger. Based on the research our view is that, at some point, this tenacity will pay off – and at some point we will see a surge in the overall proportion of Welsh small businesses that predict growth.

Our Business Barometer study looks at the UK picture over time, but in recent years we have seen divergent trends within both Wales and Scotland – findings which underline that more needs to be done to better understand and support the issues that Welsh and Scottish businesses face. Through 2024, we will continue to follow the trends for Wales and we will also publish our first report on Scottish small business outlook over time.