

Council for Economic Renewal – 13.6.2012**Summary of Trends in the Welsh economy as reported by the social partners in Wales**

1. This paper collates comments from various members of Business Wales together with the Wales TUC on the present state of the Welsh economy as perceived by those individual organizations.

Association of Chartered Certified Accountants

2. From the perspective of ACCA's membership, the current economic outlook remains somewhat uncertain. In Q4 2011, ACCA's Global Economic Conditions Survey demonstrated an unexpected but significant drop in the confidence expressed by members across the UK. At the time, it was suggested that commentary surrounding the economic conditions was impacting heavily on business confidence and organisational decision making.
3. The latest edition of the survey for Q1 2012 has demonstrated that there are mixed sentiments for the UK where the economic picture suggests an improving climate. 19% of the sample reported confidence gains, up from 10% in late 2011, while 23% now believe the global economy is improving or about to do so. However, the Welsh and UK economies appears to be lagging Western Europe as a whole, including Ireland.
4. Attitudes towards government spending have also been changing in light of disappointing growth although respondents' expectations for the medium term have not really changed. 63% expect government spending to fall against 62% in late 2011, more than half at 54% now expect the UK government to underspend over the next 5 years, up from 44% in late 2011.
5. However, respondents report fewer problems than in previous quarters, especially around accessing finance which is to be welcomed and seems to be reflected in the views of membership within public practice with regard to their client base.
6. Unfortunately, ACCA members also report fewer business opportunities with only exports and innovation cited by more respondents in early 2012 than in late 2011.
7. It should be noted that this information was gathered prior to the confirmation of the UK economy's return to recession and so it is difficult to discern what impact that news has had and will have on confidence and the likelihood of Welsh businesses to pursue planned investment or business development.

Civil Engineering Contractors Association Wales (on behalf of the Wales Construction Federation Alliance)

8. The Office for National Statistics has recently published the Q1 2012 output figures for construction, which showed an overall 4.8% **decline** during the first quarter. The volume of

new work fell by 6.9% and infrastructure by a massive 15.9%. Public housing output fell by 11% and public non-housing (education and health) by 7%. Private commercial fell by 7.1%.

9. Whilst these figures define the critical nature of the construction industry in the UK, CECA's own Workload Trends Q1 2012 survey clarifies the current state of the industry in Wales. Market activity continued to deteriorate with 29% of the civil engineering companies surveyed, on balance, reporting falling workload compared to a year ago. (In England, on balance, 6% of the companies reported **improvement** in work load, and the equivalent figure amongst companies in Scotland was 33%). The improvement in England and Scotland was attributed to investment in electricity and the rail sectors.
10. Tender prices are forecast to remain at their 2011 level during 2012, but costs, driven in particular by materials price inflation, will increase.
11. Construction sector redundancies in the UK have increased by 29% over the last quarter (from 17,000 to 22,000). Construction insolvencies in England and Wales in the last quarter totalled 615.

Federation of Master Builders

12. 99% of construction companies in Wales employ less than 60 people, 94% of these employ less than 14 people. This clearly illustrates the 'micro' natures of the vast majority of the construction sector in Wales. However, the procurement strategy of most local authorities and other public sector organisations gear their construction contract awards towards the large tier one contractors. This is also true of the focus of policies on land release in Wales. The vast majority of housing designated land is released as a large block that only allows large house builders to deliver on.
13. There is a dearth of mortgage opportunities for first time buyers and others in Wales, releasing small areas and plots would allow small concerns to acquire these opportunities. There is an opportunity for local authorities to revert to historically successful policies whereby land was released for small housing projects on a deferred payment basis. This would offer a great stimulation to the main contracting industry in Wales and allow for more affordable housing to be completed.
14. A review of the *raison d'être* of our public sector authorities is required. It would seem that their focus is on maximising profit with little attention to the provision of a fabric that will drive sustainable business that can provide a local benefit for the community. This will see a rise in expertise of our small companies and an increase in their capabilities

Federation of Small Businesses

15. It is well documented that the economy is continuing to weather an extraordinary storm and the small business sector is acutely aware of the challenges this presents. FSB Wales recently

produced its 'Voice of Small Business Member Survey'¹, which provides a snapshot of the issues facing the small business sector in Wales.

16. The survey demonstrates that business confidence is still low and this is showing no immediate sign of abating, with 35% of businesses in Wales anticipating a deteriorating environment in which to do business over the next 12 months. The survey also highlights ongoing issues surrounding finance with average borrowing of £50,000 compared to £54,900 two years ago. 41% of members applied for financial support to ensure cash flow highlighting the difficulties they face in accessing finance and dealing with late payments.
17. Barriers to accessing public sector contracts and the adequacy of business support are still issues that concern small businesses. 30% of members surveyed highlighted the costly nature of bidding for public sector contracts and a further 26% highlighted a lack of awareness as barriers to success. Furthermore, only 17% of FSB Wales members believed that the business support provided by their local authority was adequate.
18. However, there are signs of optimism amongst small businesses in Wales that are proving to be resilient despite the difficulties they face. 66% of members surveyed had been innovative over the past two years by introducing new products and services, while business growth is an objective of 43% of FSB Wales members. Unfortunately, 65% of members identify the economy as the biggest barrier or obstacle to success, although this figure has decreased 2% from 2009.
19. In light of the difficult economic climate small businesses find themselves in; FSB Wales believes that there is a need to address the underlying issues that inhibit growth, including the non-domestic rates (NDR) system. FSB Wales has called for the devolution of NDR in order for the Welsh Government to move beyond the current system towards creating a more progressive form of business taxation that would enable small businesses in Wales to grow.

Institute of Chartered Accountants in England and Wales

20. At a UK level the Institute's last Business Confidence Monitor (BCM) issued on 8th May suggested a return to growth in Q2 with all regions and sectors being positive for the first time since 2010. Confidence is backed by an improvement in financial performance. Capital investment and headcount growth show improvement but still lag pre-recession levels.
21. Overall it appears that three in five firms are still operating below capacity four years after the 2008/9 recession.
22. Average employment growth is highest among medium sized firms (those employing between 50 and 249 employees).

23. In Wales there was an increase in business confidence but the improvement was less than most other areas of the UK.

Road Haulage Association

24. The numbers of goods vehicle operating licences issued in Wales seems to be declining from year to year, which suggests that road haulage businesses are suffering a contraction in the current harsh economic climate. Business failures may result in a significant loss of employment in some cases.
25. There are proportionately more family firms in Wales than in England. These family businesses are well integrated into their local communities so the impact of an economic downturn with inevitable business failures may be more keenly felt by these operators and their communities.
26. The Traffic Commissioners' Annual report for 2010/11 <http://assets.dft.gov.uk/publications/traffic-commissioners-annual-reports/traffic-commissioners-annual-report-1011.pdf> contains the following statistics:

Goods vehicle operators – Licences in issue	
2010/11	6,274
2009/10	6,496

27. The RHA's own figures for 2012 shows approximately 300 Welsh haulage operators currently in membership.
28. While the work of trade associations such as the RHA in raising standards has been commended by the Traffic Commissioner, it has been noted that that English operators appear to have higher safety standards than apply in some areas of Wales. It has been suggested that the difference is partly explained by the cuts in staff and resources available to the Welsh enforcement authorities such as the Vehicle and Operator Services Agency (VOSA).
29. Hauliers in Wales face competition from operators in Eire, who can work in Wales legally under the EU cabotage rules; these are increasingly seeking to obtain UK operating licences. Such competition is a challenge for Welsh hauliers in the current climate. Other issues include congestion, Severn Bridge tolls, and distance to markets
30. Issues that affect the haulage industry across the UK, including Wales are:
- acute overcapacity with consolidation amongst operators likely
 - smaller hauliers, like other SMEs, having difficulty obtaining bank credit and finance, this can affect the viability of the operator; operators must have access to set funds per truck in order to obtain and keep an operating licence
 - interest costs on loans to small businesses rising in recent years
 - a recruitment crisis because potential employees do not see the freight sector as an attractive career option, and the costs of obtaining an HGV licence may be a barrier to entry in a climate where operators are reluctant to pay to train new drivers.
 - driver shortages likely to become more acute when the EU driver CPC requirement for truck drivers to have completed 35 hours of training comes into force in 2014; older

- drivers may choose to retire rather than go through the training, for which they or their employer must pay
- f. many hauliers are suffering because record numbers of businesses are paying suppliers late, an epidemic of late payment.
 - g. legitimate operators are being undermined by rival hauliers who use the pre-pack administration system as a way of dumping debts and re-starting phoenix-like with the same management team

South Wales Chamber of Commerce

- 31. The Q1 survey for 2012 shows that more than two thirds (67%) of small and medium sized businesses from Newport, Swansea, Cardiff and mid Wales experienced increased or constant sales, with only around a third (31%) reporting a decrease.
- 32. The survey also found that exports fared particularly well in the first quarter of this year, with half of all companies that export reporting an increase in sales overseas, compared to 5% of those that saw a decrease in international demand.
- 33. As a result, expectations for the next 12 months have increased dramatically, with more than half (53%) of businesses expecting an increase in turnover – a substantial rise from the end of 2011, which saw only two fifths of companies (39%) expecting an increase.
- 34. The report also reflects the current unemployment situation, and shows that the majority (69%) of businesses have maintained constant workforce numbers compared to a fifth (18%) of businesses that have boosted staff numbers.
- 35. Nearly half (48%) of companies did not attempt to recruit during the first quarter of 2012, and there was a slight drop in the number of those looking to fill full-time positions out of those that did recruit.

Wales TUC Cymru

- 36. The annual Wales TUC conference was held in Llandudno in May (22-24) with affiliated unions placing a heavy focus on regional pay and UK Government cuts which are set to increase in severity.
- 37. In January to March 2012, the number of people in employment in Wales decreased by 3,000 on the previous quarter and decreased by 6,000 on the previous year.
- 38. Inflation has fallen recently, but this has not relieved the pressure on real wages, which have been falling since January. Wales TUC is also deeply concerned at the impact the downward revision on growth this quarter (-0.3%) will have on confidence in the Welsh economy.
- 39. The worrying fall in full-time jobs is being disguised by a rise in part-time employment. Two-thirds of the part-time jobs taken up are occupied by people who would have preferred to work full-time and there has been a particularly marked increase in the number of women in involuntary part-time work.
- 40. Unemployment amongst Women in Wales has risen also risen sharply:

- Overall unemployment in Wales in Q1 2012 fell by 1% despite an 8% increase amongst female workers.
- Compared to last year, overall unemployment has risen by 17.8% whilst the same figure for women stands at 34.4%

Trade unionists voted at conference to make this issue a priority for the coming year and noted that female unemployment has reached its highest since 1988.